Time Allowed : 1 hour and 30 Minutes	Test - 2	Total Marks :50 Marks

Part A [Financial Management 30 Marks]

Q.1: (a) A company gives you the following information: -

Particulars	Sales(₹)	Operating Profit(₹)	Capital Employed(₹)
Year 1	5,00,000	2,00,000	10,00,000
Year 2	8,00,000	3,60,000	12,50,000

You are **required** to give your comments on the basis of Du-Pont analysis **(6 Marks)**

(b) Write a note on the Application of Ratio Analysis in Financial Decision-making. **(4 Marks)**

Note: - Tax Rate is 50%.

Q.2: XYZ Ltd. has the following book value capital structure: -

Equity Capital - ₹ 15 crores (in shares of ₹ 10 each fully paid up - at par)	Retained Earnings - ₹ 20 crores
11% Preference Capital - ₹ 1 crore (in shares of ₹ 100 each, fully paid up at par)	13.5% Debentures (of ₹ 100 each) - ₹ 10 crores 15% term Loans - ₹ 12.5 crores

The next expected dividend on equity share per share is ₹ 3.60; the dividend per share is expected to grow at the rate of 7%. The market price per share is ₹ 40.Preference stock, redeemable after ten years, is currently selling at ₹ 75 per share. Debentures, redeemable after six years, are selling at ₹ 80 per debenture. The Income tax rate for the company is 40%.

Required: -

(i) Calculate the WACC using: -**(a)** Book value proportions and **(b)**market value proportions

(ii) Compute the weighted marginal cost of capital of the company, if it raises₹ 10 crores next year, given the **following information**: -

(a) The amount will be raised by equity and debt in equal proportions.

(b) The company expects to retain ₹ 1.5 crores earnings next year which is to be utilised for financing the new project.

(c) The additional issue of equity shares will result in the net price per share being fixed at ₹ 32.

(d) The debt capital raised by way of term loans will cost 15% for the first ₹ 2.5 crores and 16% for the next ₹2.5 crores. **(10 Marks)**

Q.3: The management of JP & Co. Ltd. has called for a statement showing the working capital needed to finance a level of activity of 3,00,000 units of output for the year. The cost structure for the company's product, for the above mentioned activity level, is **detailed** below: -

Particulars	Cost per unit (₹)
Raw Materials	20
Direct Labour	5
Overheads (including depreciation ₹ 5)	20
Total cost	45
Profit	5
Selling prices	50

Past trends indicate that the raw materials are held in stock, on an average, for two months. Work-in-process will approximate to½month's production. Finished goods remain in warehouse, on an average, for 1 month. Suppliers of materials extend 1 month's credit. Two month's credit is normally allowed to debtors. A minimum cash balance of ₹ 25,000 is expected to be maintained. The production pattern is assumed to be even during the year. Cash sales are 75% less than the credit sales. Safety margin 20%. You are **required** to prepare a Statement of working capital determination. **(10 Marks)**

Part B [Economics for Finance 20 Marks]

Q.4: (a) Briefly explain monetary policy along with the central Bank's intention to regulate such policy. **(2 Marks)**

(b) Explain Cash Reserve Ratio (CRR) and how it can be used by RBI for increasing or decreasing the Aggregate Demand in the economy. **(2 Marks)**

(c) Critically analyses the Quantity Theory of Money (QTM). **(3 Marks)**

(d) Explain the concept of "Credit Multiplier" with a suitable example. **(3 Marks)**

Q.5: (a) Explain Net Factor Income From Broad (NFIS). How it increases or decreases the National Income of a country? **(2 Marks)**

(b) Explain the concepts of Leakages and Injections with special emphasis on the fact that Import is regarded as "Leakage" and export is regarded as "Injection". **(2 Marks)**

(c) Explain investment multiplier with suitable example. **(3 Marks)**

(d) From the following data, calculate National Income by,

a) Income Method **(b)**Expenditure method

	Particulars	₹ in crores
i.	Private Final Consumption Expenditure	2,000
ii.	Net Capital formation	400
iii.	Change in stock	50
iv.	Compensation of employees	1,900
v.	Rent	200
vi.	Interest	150
vii.	Operating Surplus	720
viii.	Net Indirect Tax	400
ix.	Employers contribution to social security schemes	100
x.	Net Exports	20
xi.	Net factor income from abroad	(–)20
xii.	Government final consumption expenditure	600
xiii.	Consumption of fixed capital	100

(3 Marks)