APR'19

THBMS Sem II Finance

TIME:- 2 ½ HRS MARKS:-75

Q.1 (A) Choose the correct Option and rewrite the sentence: (Any Eight) (08)

1. The most common form of dividend payment is _____.
   (a) Stock Dividend (b) Cash Dividend (c) Stock Split (d) Bonus issue
2. XBRL is used for _____ reporting standards.
   (a) Business (b) Government
   (c) Trust (d) Partnership
3. A Project Costing ₹ 5,00,000, is having an useful life of 5 years is expected to bring cash flows of 1,25,000 p.a., the payback period will be _____
   (a) 5 Years (b) 4 Years (c) 3 Years (d) 2 Years
4. _____ ensures that less number of projects are selected by imposing capital restrictions.
   (a) Capital structure (b) Capital Budgeting
   (c) Capital Rationing (d) None of the above
5. _____ is the excess of Market capitalization over networth.
   (a) Economic Value Added (b) Market Value Added
   (c) Residual Income (d) Return on Investment
6. Agency Theory is based on the assumption that _____
   (a) Ownership is separated from Management
   (b) Ownership is not separated from Management
   (c) Shareholder control the company
   (d) Shareholder does not control the company
7. Amalgamation is governed by _____
   (a) AS 14 (b) AS 3 (c) AS 21 (d) 32
8. NPA stands for _____.
   (a) Net Performing Assets (b) Non Performing Assets
   (c) Non Privilege Assets (d) None of the Above
9. Interest on loans and advances is _____ to commercial banks.
   (a) Income (b) Expenses (c) Loss (d) Liability
10. Interest on debenture is paid out of _____
    (a) Income (b) Assets (c) Debentures (d) Loans

B) State whether the following questions are True or False (Any Seven) (07)

1. Dividend becomes a liability when it is recommended by directors.
2. XBRL provides solution to HR problems.
3. Risk in decision making arises due to stable political situation.
4. Capital Rationing is selection of the investment proposal without any constraints.
5. ROI is calculated on the basis of net operating profit.
6. Stewardship theory assumes that managers are self-directed.
7. Companies go for merger due to strategic benefits.
8. Preference dividend is deducted from NPAT for calculation of EPS.
9. Term loan is an advance given by a bank to customers.
10. MPBF refers to Maximum Permissible Bank Finance

Q.2 (A) The details regarding two companies are given below:- (08)

Particulars	Tom Ltd	Jerry Ltd
Internal Rate of Return	15%	5%
Cost of Capital	15%	10%
Earnings Per Share	₹ 8	₹ 8

By using Walter's Model, calculate the value of an equity share of each of these companies when the dividend payout ratio is:

(a) 25% (b) 75%

(B) The following data is available from Kyle Ltd:- (07)

Earnings Per Share	₹ 10
Return on Investment	20%
Cost of Capital	16%

Calculate the market price of a share of Kyle Ltd as per Gordon's Model, if

(i) b = 25% (ii) b = 50% (iii) b = 75%

OR

(C) Steve Ltd has 40,000 equity shares outstanding at the beginning of the year 2024. The current market price per share is ₹ 120. The Board is contemplating ₹ 6.40 per share as dividend. The rate of capitalization is 9.6%. (15)

(i) Based on M.M approach, calculate market price of a share when dividend is (a) declared and (b) not declared

(ii) How many new shares are to be issued by the company if the company desires to find an investment budget of ₹ 16,00,000 by the end of the year assuming net income for the year will be ₹ 8,00,000?

Q.3 (A) Shree Ltd is considering three mutually exclusive projects viz., Mitya, Satya and Nitya. The expected cash inflows are as follows:- (15)

Particulars	Mitya	Satya	Nitya
Initial Investment	15,00,000	11,00,000	19,00,000
Cash Inflow after tax or the year			
1	6,00,000	6,00,000	4,00,000
2	6,00,000	4,00,000	6,00,000
3	6,00,000	5,00,000	8,00,000
4	6,00,000	2,00,000	12,00,000
Risk Index	1.80	1.00	0.60

The company's cost of capital of 15% and the risk free rate of return is 10%.

Note: Present value of ` for five years

Rate	Year 1	Year 2	Year 3	Year 4	Year 5
11%	0.9009	0.8116	0.7312	0.6587	0.5935
13%	0.8850	0.7831	0.6931	0.6133	0.5428
15%	0.8696	0.7561	0.6575	0.5718	0.4972
17%	0.8547	0.7305	0.6244	0.5337	0.4561
19%	0.8403	0.7602	0.5934	0.4987	0.4190

Which project should be accepted? Why?

OR

(B) Sonu Ltd is considering two mutually exclusive projects. Investment outlay of both the project is ₹ 5,00,000 and each is expected to have a life of 5 years.. under three possible situations their annual cash flows are as under (08)

Situation	Probabilities	Project A (₹ in Lakhs)	Project B (₹ in Lakhs)
Good	0.3	12	10
Normal	0.4	8	8
Worse	0.3	4	6

Which Project is more risky? Why?

(C) Chinchan Ltd is considering the following projects. The investment limit is ₹ 10,00,000 (07)

Project	Initial Outlay (₹)	PI
P	3,00,000	1.22
Q	1,50,000	0.95
R	3,50,000	1.20
S	4,50,000	1.18
T	2,00,000	1.20
U	4,00,000	1.05

Which of the above projects should be undertaken in order to maximize NPV, assuming that the projects are divisible.

Q.4 (A) Big Ltd is intending to acquire Small Ltd (by merger). The following details are available:- (08)

Particulars	Big Ltd.	Small Ltd.
Earnings after Tax (₹ in Lakhs)	₹ 56	₹ 21
Number of Equity shares (in Lakhs)	10	8.40
Market Price Per share	₹ 70	₹20

You are required to calculate:-

(i) Present EPS of both the companies.

(ii) If the proposed merger takes place, what would be the new EPS of Big Ltd assuming that merger takes place by exchange of equity shares and the exchange ratio is based on market price per share.

(B) Calculate Economic Value Added (EVA) from the following information of Benz Ltd (07)

NOPAT	₹ 49 Lakhs
Capital Structure:	
Equity Share Capital	₹ 85 Lkahs
Reserves & Surplus	₹ 65 Lakhs
10% Debentures	₹ 200 Lakhs
Cost of Equity	17.50%
Income Tax Rate	30%

OR

(C) The following Cost Sheet is pertaining to Bhim Ltd. (15)

Cost Elements	Per Unit (₹)
Raw Materials	80.00
Direct Labour	30.00
Overhead	60.00
Total Cost	170.00
Profit	30.00
Sale Price per unit	200.00

The following further information is available :-

1. Raw materials remain in stock on an average for one month.
2. Materials are in process, on an average for half a month.
3. Finished goods are in stock on an average for one month.
4. Credit allowed by suppliers is one month.
5. Credit allowed to debtors is two months.
6. Lag in payment of wages is 1 ½ weeks.
7. Lag in payment of overhead expenses is one month.
8. One fourth of the output is sold against cash.
9. Cash in hand and at bank is expected to be ₹ 25,000.
10. Assume production and overheads accrue evenly throughout the year.

Prepare a statement showing working capital requirement needed to finance a level of activity of 1,04,000 units of production.

Also calculate Maximum Permissible Bank Finance (MBPF) as per Tandon Committee recommendations if the core current assets is ₹ 1,25,000.

Q.5 (A) Define XBRL. Explain its users. (08)

(B) Explain the benefits of Corporate Governance. (07)

OR

Q.5 (C) **Write Short notes: (Any Three)** (15)

(i) Modigliani Miller Model

(ii) Sensitivity Analysis

(iii) Market Value Added

(iv) Rebate on Bills Discounting

(v) Provision for Non-Performing Assets (NPA's)

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Time:2 ½ Hours **Marks:75**

Q.1. (a) Multiple Choice Questions (any 8): **(8)**

1. If spot USD/INR is 50, and six months forward rate is 51 then AFM is _____
   a) 1%
   b) 4%
   c) 2%
   d) 3%

2. In Holgate's principle, if Bid > Ask, Swap points of forward rate are to be
   a) Added
   b) Subtracted
   c) Multiplied
   d) Divided

3. _____ was introduced at the time when forex reserves of the country were low.
   a) FERA
   b) FEMA
   c) GATT
   d) EXIM

4. _____ is Known as benefit / cost ratio
   a) Profitability Index
   b) Pay back period
   c) NPV
   d) IRR

5. If IRR > WACC, then the project must be _____
   a) Accepted
   b) Rejected
   c) Discarded
   d) Reviewed

6. _____ Contacts are bilateral contracts.
   a) Forward
   b) Futures
   c) Options
   d) Swaps

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7. In ADR/GDR process _____ issues depository receipts in foreign markets.
   a) Custodian Bank
   b) Depository Bank
   c) Issuing Company
   d) Lead Manager

8. GBP/SEK = 6.4750-50 what is the mean rate in this case = _____
   a) 6.48
   b) 6.49
   c) 6.51
   d) 6.50

9. Discounted Cash Flow considers the _____
   a) Rate of Interest
   b) Past Profit
   c) Time Value of Money
   d) Calculated Value

10. SBI A/C with HSBC in UK is an example of _____
   a) LORO
   b) NOSTRO
   c) VOSTRO
   d) ZORO

(B) State whether the following statement are true or false (any 7): (7)

1. The balance of Payment identify is CA+FA+RA = 0
2. In the case of FPI, entry and exit are difficult.
3. Gold standards have proved to be a fair weather friend.
4. Exchange rate risk only affects multinational corporations, not individual investors.
5. High tax is levied in tax haven
6. The main centre of Euro currency markets is India.
7. The International Monetary Fund (IMF) was created to provide long-term development financing to countries.
8. A trade surplus occurs when a country imports more than it exports.
9. The gold standard is not used currently by any government.
10. LOBOR stands for "Luxemburg Inter Bank Offer Rate".

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Q.2.(A) Explain the Features of the gold standard. **(08)**

(B) Explain the components of Balance of Payments. **(07)**

OR

(P) The following quote is given in Mumbai **(08)**
1USD = Rs. 22.7250 – Rs. 22.7300
Is this quote "Direct" or "Indirect" in Mumbai?
Calculate Mid-rate, Spread and Spread %
Find the inverse quote.

(Q) The following quotations are available in US: **(07)**
GBP/USD = 1.5393 - 1.5403
USD/AUD = 0.9790 - 0.9800
The following quotation is available in Australia:
GBP/AUD = 1.5100 - 1.5110
1. Derive the Quote GBP/AUD from the set of Quotes given in US
2. Compare the derived GBP/AUD quote with the quote given in Australia and find the arbitrage gain if any on GBP 1 Million.

Q.3. (A) Discuss any three innovations in Euro Bond Markets. **(08)**

(B) What is a Euro Bank? What are its competitive advantages? **(07)**

OR

(P) Based on the following data, establish quotation for: **(08)**
A. 50 days forward USD/NOK
B. 108 days forward USD/CHF

Maturity	USD/NOK	USD/CHF
Spot	**5.8575 - 25**	**0.9493 - 03**
1 month forward	175 - 200	8 - 3
2 month forward	535 - 590	29 - 18
3 month forward	1150 - 1250	65 - 48

(Q) Spot USD/CAD 12.3325 **(07)**
6 month AFM = 3.25%
Calculate 6 Month forward USD/CAD rate.

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Q.4.(A) What is FDI? Explain its features. **(08)**

(B) Discuss the elements of the International Equity market. **(07)**

OR

(P) Given **(07)**

Spot 1 EUR= DKK 7.5270
6 months forward EUR/DKK = 7.5490
DKK interest rate = 1.50% p.a
EUR interest rate = 0.80% p.a
Established covered interest arbitrage, if any on capital of 1 million currency units.

(Q) The following data is available to decide on the best alternative for borrowing INR 12 Million for a temporary period of three months on a risk free basis. Exchange rates are against INR. **(08)**

Currency	Spot Rate	3 months forward rate	Interest rate
AUD	41.1245	41.2765	4.00 % p.a.
USD	56.1650	56.2000	4.50 % p.a.
GBP	70.0650	70.0350	5.00 % p.a.

Q.5.(A) Explain the objectives of taxation. **(07)**

(B) BTKT Ltd. is considering investing in a project requiring a capital outlay of Rs. 2,00,000. Forecast for annual income after tax is as follows: **(08)**

Year	1	2	3	4	5
Profit After Tax	1,00,000	1,00,000	80,000	80,000	40,000

Depreciation is 20% on Straight Line basis. Evaluate the project on the basis of NPV taking 14% discounting factor and advise whether BTKT Ltd. should invest in the project or not. The present value of Re. 1 at 14% discounting rate are 0.8772, 0.7695,0.6750, 0.5921 and 0.5194.

OR

Q.5.Write Short Notes on (any three) **(15)**

1) Role of FEDAI
2) Currency options in India.
3) Fixed Vs. Flexible Exchange Rate System
4) Autonomous transaction
5) ADR & GDR

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Duration: 2 ½ Hrs. **Total Marks: 75**

Note:

1. **All Questions are Compulsory.**
2. **Working should form part of answers, wherever necessary.**
3. **Figures to the Right Indicate Marks.**

Q-1-A) Multiple choice question (Any 8) (8 Marks)

1) What is the primary aim of financial services?
   a. increase production
   b. facilitate economic growth
   c. reduce imports
   d. control inflation

2) What is the full form of NBFC?
   a. National Banking Financial Company
   b. Non-Banking Financial Company
   c. New Banking Finance Corporation
   d. none

3) What type of finance is provided by bill discounting?
   a. long-term
   b. medium-term
   c. short-term
   d. permanent

4) What do underwriters guarantee?
   a. dividend
   b. share subscription
   c. interest
   d. loans

5) Stock brokers are registered with which authority?
   a. RBI
   b. SEBI
   c. IRDAI
   d. NABARD

6) Venture capital is most suitable for which type of firms?
   a. established firms
   b. start-ups
   c. Government Firms
   d. Banks

7) What does credit rating indicate?
   a. profitability
   b. creditworthiness
   c. sales
   d. assets

8) What does a high credit rating indicate?
   a. high risk
   b. low creditworthiness
   c. low risk of default
   d. poor performance

9) What does a credit card allow?
   a. immediate debit
   b. payment without funds
   c. borrowing up to a limit
   d. only cash withdrawal

10) What is the primary objective of consumer protection in plastic money?
   a. increase bank profits
   b. promote cash transactions
   c. safeguard consumers against fraud and misuse
   d. reduce digital payments

Q-1B) Answer the statement true or false (any 7) (7 Marks)

1. Factoring is a financial service that involves the sale of receivables to a third party.
2. Forfaiting is primarily used in domestic trade transactions.
3. Merchant bankers act as lead managers and help companies raise capital from the market.
4. Securitization is the process of converting illiquid assets into tradable securities.
5. Venture capital is mainly suitable for low-risk and well-established businesses.
6. Credit rating completely eliminates the risk associated with investment decisions.
7. Consumer credit is mainly provided to businesses for expansion.
8. Loan syndication involves a single bank providing the entire loan amount.
9. Corporate counselling helps firms in making strategic and financial decisions.
10. Consumer credit enables individuals to purchase goods and services on deferred payment.

Q.2 (A) Discuss the traditional financial services. (8 marks)
Q.2 (B) Differentiate between operating lease and financial lease. (7 marks)

OR

Q.2 (C) Smart Home Electronics Ltd., a growing home appliances company, is facing delays in collection and increasing working capital requirements. To improve liquidity and efficiently manage its receivables, the company is considering factoring as a financing option.

- Total Annual Credit Sales: Rs.50,00,000
- Average Collection Period: 90 days
- Bad Debt Losses (Past): 1.5%
- Administration Cost: Rs.50,000
- Factor's Commission: 2%
- Interest on Advance: 18% per annum
- Factoring Reserve (withheld): 10%

From the following information given, calculate annual effective cost of factoring to the firm. (8 marks)

Q.2 (D) Explain the advantages of factoring. (7 marks)

Q.3 (A) Discuss the functions of merchant banking. (8 marks)
Q.3. (B) Explain the advantages of Securitizations. (7 marks)

(OR)

Q.3 (C). Define derivative? Explain its types. (8 marks)
Q.3.(D) Explain the role of stock brokers. (7marks)

Q.4 (A). Explain the advantages of leasing. (8 marks)
Q.4 (B). Discuss the importance of Housing finance. (7 marks)

(OR)

Q.4.(C) On 1st April 2026, Sunrise Logistics Ltd. purchased machinery from Larsen & Toubro Ltd. on a hire purchase basis. The cash price of the vehicle was Rs.5,50,000. The payment terms were as follows:

- Down Payment: Rs.50,000 at the time of agreement
- Balance Amount: Rs.5,00,000 payable in four equal annual instalments of Rs.1,25,000 each, plus interest at 12% per annum, payable on 31st December every year
- The first instalment was due on 31st December, 2026.

The financial accounts are closed on 31st December every year. Depreciation on the machinery is charged at 10% per annum using the Diminishing value method. Prepare the ledger accounts of the Machinery and hire purchase vendor account the books of the Sunrise Logistics Ltd. (8 marks)

Q.4. (D) Explain the objectives of Venture Capital. (7 marks)

Q.5 (A). Differentiate between debit and credit cards. (8 marks)
Q.5 (B). Discuss the credit rating process. (7 marks)

(OR)

Q.5 (C) Write short notes on any three (15 marks)

a. Hire purchase Vs. Leasing
b. Role of CIBIL score
c. Objectives of Loan syndication
d. Types of Plastic money
e. Importance of consumer finance

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[Time:2.30 Hours] [Marks:75]

Please check whether you have the right question paper.

N.B:
1. **All question are compulsory.**
2. **Figures to the right indicate full marks.**
3. **Working note should form part of main answer**
4. **Use of simple calculators is allowed**

Q. 1.A. State whether the following are True or False (Any 8) (8)

1. A project is not a physical objective.
2. Cash flow is not affected by tax.
3. Phases in the project are called as project life cycle.
4. Marketing feasibility finds out whether there will be a demand for product.
5. Tactical decisions are taken at top level.
6. Demand forecasting is an estimation of sales.
7. Trading on Equity is used to increase EPS.
8. Yield value depends on FMP.
9. NPV stands for Net Present Value.
10. Kaizen stands for profitability.

Q.1.B. Match the Column (Any 7) (7)

	Column A		**Column B**
1.	Functional Structure	(a)	Non Refundable
2.	Sacred Cow	(b)	Solves Project Management Problem
3.	Project Manager	(c)	Controls Project
4.	SWOT	(d)	Work Break Down Structure
5.	Buyer Behavior	(e)	System Improvement
6.	Continuous Improvement	(f)	Done by Delphi Method
7.	WBS	(g)	Strength, weakness, opportunities & threat.
8.	Project Audit	(h)	Leader of project team
9.	Fishbone Diagram	(i)	Powerful Officer
10.	Equity Share Capital	(j)	Division of Labour

Q. 2.A. Madhu Industries Ltd. has an investment proper of Rs. 40,000. The expected Cash inflow as under: **(15)**

Year	Cash Inflow
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Calculate internal rate of return with the help of 10 % discounting factor and 15 % discounting factor.

YEAR	PV FACTOR @ 10%	PV FACTOR @ 15%
1	0.909	0.870
2	0.826	0.756
3	0751	0.658
4	0.683	0.575
5	0.621	0.497
6	0.564	0.432
7	0.513	0.376
8	0.467	0.327
9	0.424	0.284
10	0.386	0.247

OR

Q. 2.B. Explain the importance of Project Management. **(8)**

Q. 2.C. Explain conflict and negotiation handling in project. **(7)**

Q. 3.A. Calculate the degree of Operating leverage, degree of financial leverage and the degree of combined leverage for both the firms . **(15)**

Particulars	A Ltd	B Ltd
Output(units)	60000	15000
Variable Cost (per unit) (RS.)	10.00	75.00
Fixed Cost (in Rs.)	7,00,000	14,00,000
Debentures (@12% Interest) (in Rs)	4,00,000	6,50,000
Selling Price (per unit) (in Rs.)	30.00	250.00

OR

Q. 3.B. Explain SWOT Analysis with suitable examples. **(8)**

Q. 3.C. Explain Delphi Method. Write its advantages and disadvantages **(7)**

Q. 4.A. Following is the Balance Sheet of Hindustan Lever Corporation Ltd. as on 31st March, 2023: **(15)**

Liabilities	Rs.	Assets	Rs.
Equity Share Capital of Rs. 10 each	7,00,000	Goodwill	2,00,000
8% Preference Share Capital of Rs. 100 each	5,00,000	Fixed Assets	7,00,000
9% Debentures	2,00,000	Stock	2,00,000
Creditors	1,50,000	Debtors	1,50,000
Other Liabilities	1,00,000	Cash	2,00,000
		Bank	1,50,000
		Preliminary Expenses	50,000
	16,50,000		16,50,000

Average Net Profit After Tax of the company is Rs. 1,80,000. NRR is 10%.
You are require to value the shares of the company on the basis of:
1. Net Asset Basis 2) Yield Value Basis 3) Fair Value Basis

OR

Q. 4.B. Explain risk management and discuss risk management process. **(8)**

Q. 4.C. What are the steps involved in termination of a project? **(7)**

Q. 5.A. Rashtriya Chemicals Ltd. proposes to set up a chemical plant at Nashik for processing the industrial waste into a marketable product CANVAS. The product has a demand for 60,000 litres. **(15)**

The processing cost includes variable cost Rs. 9 per litre and fixed cost (excluding depreciation) Rs. 50,000 p.a. Advertisement expenses are also expected to be Rs. 24,000 p.a. CANVAS can be sold at Rs. 30 per litre. Raw material (input) is available at Rs. 3 per litre. The capital investment is Rs. 24,00,000. The company has applied to IDBI for a loan of Rs. 18,00,000 for a term of 6 years that is over life of the asset. Loan is repayable in 6 equal annual installments along with interest at the end of each year.

Rate of interest is 10% p.a.

Income tax rate is 30%.

You are required to:

a) Give the Loan Amortization table by the above project for the first 5 years only.
b) Prepare Income Statement for five years
c) Calculate the debt service coverage ratio and Interest Coverage Ratio for the above 5 years.

OR

Q. 5.B. Write Short Notes on Attempt (Any 3 out of 5) **(15)**

1. Project Management Information System (PMIS)
2. E-Commerce
3. Financial Feasibility
4. Work Breakdown Structure.
5. Market Experiment Method
