

FINAL EXAMINATION

December 2014

F-P12(AFM)

Syllabus 2008

Financial Management & International Finance

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

- Please (i) Answer all parts of a question at one place.
(ii) Open a new page for answer to a new question.
(iii) Tick the question number answered on the front sheet of the answer-book.

All workings must form part of your answer.

Assumptions, if any, must be clearly stated.

Answer question No. 1 from Part A which is compulsory and any five questions from Part B.

PART A (25 Marks)

1. (a) In each of the cases given below, one out of four answers is correct. Indicate the correct answer (= 1 mark) and give workings/reasons briefly in support of your answer (= 1 mark): $2 \times 8 = 16$
- (i) MN Ltd. has earning before interest and taxes of ₹ 36 crores. The company has 7% debentures of ₹ 72 crores. Cost of equity is 12.5%. Ignore taxes. What is the overall cost of Capital?
(A) 11.26%
(B) 11.20%
(C) 11.50%
(D) 11.28%
- (ii) R Ltd. earns ₹ 8 per share, has capitalisation rate of 10% and has a return on investment at the rate of 18%. According to Walter's Model, what should be the price per share at 28% dividend pay out ratio?
(A) ₹ 120
(B) ₹ 125
(C) ₹ 126.08
(D) ₹ 125.08
- (iii) MAYANK Ltd. employs 12% as nominal required rate of return to evaluate its new investment projects. In the recent meeting of the Board of Directors, it has been decided to protect the interest of shareholders against purchasing power loss due to inflation. The expected inflation rate in the economy is 5%. What is the real discount rate?
(A) 6.67%
(B) 6%
(C) 5%
(D) 6.5

Please Turn Over

- (iv) What is the opportunity cost of not taking a discount, when the credit terms are 1/15 net 30? Assume 1 year = 365 days.
- (A) 29.58%
(B) 24.58%
(C) 24.65%
(D) 29.68%
- (v) An Indian Company is planning to invest in the US. The rates of inflation are 8% in India and 3% in USA. If the spot rate is currently ₹ 60.50/\$, what spot rate can you expect after 5 years, assuming the inflation rates will remain the same over 5 years?
- (A) ₹ 76.68
(B) ₹ 75.90
(C) ₹ 74.00
(D) ₹ 76.10
- (vi) Operating Leverage 2, Combined Leverage 5, Profit/volume ratio 40%, Tax rate 40%, Earnings after tax ₹ 7.20 lakhs. Calculate the percentage drop in Sales to make the EPS zero.
- (A) 10%
(B) 15%
(C) 20%
(D) 12%
- (vii) From the following quotes of a bank, determine the rate at which Yen can be purchased with Rupees.
- | | |
|------------------------|------------------------|
| ₹/£ Sterling | 75.31 – 33 |
| £ Sterling/Dollar (\$) | 1.563 – 65 |
| Dollar (\$)/Yen (¥) | 1.048/52 [per 100 Yen] |
- (A) ₹ 124.02
(B) ₹ 142.02
(C) ₹ 412.02
(D) ₹ 214.02
- (viii) Spot (Euro/Pound) = 1.6543/1.6557
Spot (Pound/NZ \$) = 0.2786/0.2800
What is the % Spread on the Euro/Pound rate?
- (A) 0.085%
(B) 0.805%
(C) 0.508%
(D) 0.058%

