

FINAL EXAMINATION

June 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 bits 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.

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) X Ltd. issued ₹ 100, 12% Debentures 5 years ago. Interest rates have risen since then, so that debentures of the company are now selling at 15% yield basis. What is the current expected market price of the debentures?

(A) ₹ 75

(B) ₹ 80

(C) ₹ 90

(D) ₹ 85

(ii) Given:

Last year Current year

Sales unit 2,000 2,800

Selling price per unit ₹ 10 ₹ 10

EPS ₹ 9.60 ₹ 38.40

What is the Degree of Combined Leverage?

(A) 6.5

(B) 5.6

(C) 7.5

(D) 5.7

(iii) MI Ltd. has annual sales of ₹ 365 lakhs. The company has investment opportunities in the money market to earn a return of 15% per annum. If the company could reduce its float by 3 days, what would be the increase in company's total return? (Assume 1 year = 365 days)

(A) ₹ 45,000

(B) ₹ 40,000

(C) ₹ 54,000

(D) ₹ 46,000

Please Turn Over

- (iv) In the inter-bank market, the DM is quoting ₹ 21.50. If the bank charges 0.125% commission for TT selling, what is the TT selling rate?
- (A) ₹ 21.47/DM
(B) ₹ 21.53/DM
(C) ₹ 22.78/DM
(D) ₹ 23.45/DM
- (v) The required rate of return on equity is 24% and cost of debt is 12%. The company has a capital structure mix of 80% of equity and 20% debt. What is the overall rate of return, the company should earn? Assume no tax.
- (A) 21.6%
(B) 14.4%
(C) 18.6%
(D) 17.22%
- (vi) Consider the following quotes:
Spot (Euro/Pound) = 1.6543/1.6557
Spot (Pound/NZ's) = 0.2786/0.2800
Calculate the % spread on the Euro/Pound Rate.
- (A) 0.0805%
(B) 0.0080%
(C) 0.8501%
(D) 0.0850%
- (vii) Initial Investment ₹ 20 lakh. Expected annual cash flows ₹ 6 lakh for 10 years. Cost of capital @ 15%. What is the Profitability Index? The cumulative discounting factor @ 15% for 10 years = 5.019.
- (A) 1.51
(B) 1.15
(C) 5.15
(D) 0.151
- (viii) The following details relate to an investment proposal of XYZ Ltd.
Investment outlay— ₹ 100 lakhs
Lease Rentals are payable at ₹ 180 per ₹ 1000
Term of lease—8 years
Cost of capital—12%
What is the present value of lease rentals, if lease rentals are payable at the end of the year?
[Given PV factors at 12% for years (1-8) is 4.9676.]
- (A) ₹ 98,14,680
(B) ₹ 89,41,680
(C) ₹ 94,18,860
(D) ₹ 96,84,190

