MODEL TEST PAPER 1

(EXPECTED QUES. FOR DEC 2017)

CS PROFESSIONAL

Financial, Treasury and Forex Management

maximum marks : 100 **NEW SYLLABUS**

Total number of questions : 6 Total number of printed pages : 7

NOTE : 1. Answer **ALL** Questions.

2. Tables showing the present value of _1 and the present value of an annuity of _1 for 15 years are annexed.

1. Comment on ***any four*** of the following :

a) Investment, financing and dividend decisions are inter-related.
State with reasons whether the investment financing and dividend decisions are inter-related

b) Describe various kinds of capital structure

c) What is 'stable dividend policy'? Do you recommend a stable dividend policy? Explain the reasons for your answer.

d) Describe the mechanics involved in factoring.

Attempt all parts of either Q.No. 2 or Q.No. 2A

2. Distinguish between the following :

a) Distinguish between financial lease & operating lease?

b) Distinguish between 'Futures contracts' and 'forward contract'

c) Distinguish between Business Risk V/s Financial Risk.

d) Distinguish between Factoring' and 'securitization'

OR (Alternate question to Q.No. 2)

2A i) "Risk and return go together and there is always a conflict between the return from a decision and the risk it brings to the firm." Discuss this statement in the light of finance function.

ii) Write a note on 'Mark-to-market' settlement of index futures.
iii) Write notes on Technical appraisal of projects.

Iv) Write notes on the Benefits of depository system.

Attempt all parts of either Q.No. 3 or Q.No. 3A

3

Sell – Well Ltd. is considering to install a large stamping machine. Two machines being considered are as follows:

Machine A: It costs ₹50,000 and will require cash running expenses of ₹15,000 per annum. It has a useful life of 6 years and, thereafter, it is expected to yield ₹2,000 as salvage value.

Machine B: It costs ₹65,000 and its running expenses are ₹12,000 per annum. It has useful life of 10 years and, thereafter, salvage value of ₹5,000. Both machines would be depreciated on straight line basis. Corporate tax rate is 50%. Cost of capital is 10%.

Which machine should be bought by the Sell – Well Ltd.?

b)

Fast – run Automobiles Spares Ltd. (FASL) is considering investment in one of three mutually exclusive projects A, B and C. The Company's cost of capital is 15% and the risk – free rate of return is 10%. FASL has gathered the following basic cash – flow and risk index data for each project:

	PROJECT		
	A	**B**	**C**
	₹	**₹**	**₹**
Initial Investment	15,00,000	11,00,000	19,00,000
Cash inflows after – tax for 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

Using the risk adjusted discount rate, determine the risk adjusted NPV for each of the project. Which project should be accepted by the company ? Give reasons.

(i) RADR (Risk Adjusted discount rate) = Risk free rate + Risk index x (Ke – Rf)

c) Write short notes on "External Commercial Borrowings".

d) A Group of customers want to enter into a contract with you to buy goods worth ₹20 lakhs during 2007 the deliveries to be made in four equal instalments quarterly. The price of the commodity is ₹20 per unit on which you expect a profit of ₹10. The acceptance of this proposal would mean an additional recurring expenditure of ₹10000 p.a. on your part.

The ageing schedule of accounts receivables in respect of this group of customers in the past was as follows:

Period	Percentage of bills for which payment received
At the end of 30 days	15%
At the end of 60 days	25%
At the end of 90 days	40%
At the end of 100 days	20%

Assuming on opportunity cost of 20% of the funds locked up in accounts receivables, will it be desirable to accept this proposal?

3A

a) Describe the responsibilities of Treasury Manager.

b) The net sales of A Ltd. are ₹ 30 crores. Earnings before interest and tax of the company as a percentage of net sales are 12%. The capital employed comprises ₹ 10 crores of equity, ₹ 2 crores of 13% Cumulative preference share capital and 15% Debentures of ₹ 6 crores. Income-tax rate is 40%.

Calculate the return-on-equity for the company and indicate its segments due to the presence of preference share capital and borrowing (debentures).

Calculate the operating leverage of the company given that combined leverage is 3.

c) XYZ Ltd. sold goods worth $ 2,06,000 to a customer in U.S.A., the receipt due in 4 months.

Exchange Rate:

Spot \$ 1	= ₹ 40 – 42
Fourth month forward \$ 1	= ₹ 40.50 – 42.75

Interest Rate:

U.S.A.	-----	7% - 9% P.A.
India	-----	12% - 14% P.A.

Calculate the receipt under

i) Forward Market

ii) Money Market

d) The MNC Ltd.'s available information is:

K_e = 15% E = ₹30 r = (a) 14% (b) 15% and (c) 16%

You are required to calculate market price of a share of the MNC Ltd. as per Gordon model if:

b = 40% (ii) b = 60% (iii) b = 80%

4a:- Comment, it is not always necessary that inventory is held for smooth manufacturing and sales operations.

4b :- A stock costing ₹120 pays no dividends. The possible prices that the stock might sell for that the end of the year with the respective probabilities are:

Price	**Probability**
115	0.1
120	0.1
125	0.2
130	0.3
135	0.2
140	0.1

Required:

(i) Calculate the expected return.

(ii) Calculate the standard deviation of returns

4c :- An engineering company is considering its working capital investment for the year 2003–04. The estimated fixed assets and current liabilities for the next year are ₹6.63 crore and ₹5.967 crore respectively. The sales and earnings before interest and taxes (EBIT) depend on investment in its current assets – particularly inventory and receivables. The company is examining the following alternative working capital policies:

Working Capital Policy	Investment in Current Assets (₹Crore)	Estimated Sales (₹Crore)	EBIT (₹Crore)	
Conservative	11.475	31.365	3.1365	
Moderate		9.945	29.325	2.9325

Aggressive	6.63	25.50	2.55

You are required to calculate the following for each policy:

(i) Rate of return on total assets.

(ii) Net working capital position.

(iii) Current assets to fixed assets ratio.

(iv) Discuss the risk-return trade off each working capital policy.

4d:- Following are the details regarding the capital structure of a company:

Type of capital	Book Value	Market Value	Specific Cost
Debentures	40,000	38,000	5%
Preference capital	10,000	11,000	8%
Equity capital	60,000	1,20,000	13%
Retained earnings	20,000	----------	9%
	1,30,000	1,69,000	

You are required to determine the weighted average cost of capital (using (i) book value as weights; (ii) market value as weights. Do you think, there can be situation where weighted average cost of capital would be the same irrespective of the weights used.

5a:- A product is currently manufactured on a plant that is not fully depreciated for tax purposes and has a book value of ₹60,000 (it was bought for ₹1,20,000 six years ago). The cost of product is as under: -

	Unit Cost	
	₹	
Direct Costs	24.00	
Indirect Labour		8.00
Other variable over heads	16.00	
Fixed over heads	16.00	
	64.00	

10, 000 units are normally produced. It is expected that the old machine can be used, indefinitely into the future, after suitable repairs, estimated cost ₹40,000 annually, are carried out.

A manufacturer of machinery is offering a new machine with the latesttechnology at ₹3,00,000 after trading off the old plant for ₹30,000. The projected cost of the equality of the product will then be:

	Per Unit
	₹
Director Costs	14.00
Indirect Labour	12.00
Other variable overheads	12.00
Fixed Overheads	20.00

58.00

The fixed overheads are allocations from other departments plus the depreciation of plant and machinery.

The old machine can be sold for ₹40, 000 in the open market. The new machine is expected to last for 10 years at the end of which, its salvage value will be ₹20, 000. Rate of corporate taxation is 50%. For tax purposes, the cost of the new machine that of the old one may be depreciated in 10 years. The minimum rate of return expected is 10%.

It is also anticipated that in future the demand for the products will stay at 10, 000 units.

advise whether the new machine can be purchased. Ignore capital gain taxes.

5c) On September 13, 2005 a trader buys one Nifty Index Futures contract at 1,870. The initial margin requirement for the contract is ₹ 10,000 while the maintenance margin is 75% of initial margin. (Nifty Index Futures are traded in multiples of 200). Its settlement prices for the next 8 trading days are as follows

DateS	Settlement Price
September 13	1865
September 14	1858
September 15	1853
September 16	1847
September 17	1849
September 20	1855
September 21	1872
September 22	1879

On September 23, the investor closes his position when futures price was 1883. You are required:

(a) Prepare the margin account showing all the cash flows (assume no amount is withdrawn from the margin account).

(b) Calculate profit/loss.

6:- Marks Limited is launching a new project for the manufacture of a unique component. At full capacity of 24,000 units, the cost per unit will be as follows:

Material	₹80
Labour and variable expenses	40
Fixed manufacturing and administrative expenses	20
Depreciation	10
	150

The selling price per unit is expected at ₹200 and the selling expenses per unit will be ₹10, 80 per cent being variable.

In the first two years, production and sales are expected to be as follows:

Year	Production units	Sales units

1	15,000	14,000
2	20,000	18,000

To assess working capital requirement, the following additional information is given:

(a) Stock of raw material – 3 month's average consumption.
(b) Work – in – progress – Nil
(c) Debtors – 1 month average cost of sales.
(d) Creditors for supply of materials – 2 months average purchases of the year.
(e) Creditors for expenses – 1 month average of all expenses during the year.
(f) Minimum desired cash balance – ₹20,000.
(g) Stock of finished goods is taken at average cost.

You are required to prepare a projected statement of working capital requirements for two years.

CS PROFESSIONAL

FINANCIAL TREASURY

&

FOREX MANAGEMENT

BY H L GUPTA (9312606737)

FEES - ₹8000

BATCHES	DAYS	TIME
BATCH 1	TUE / THU/ SAT	7.30 to 9.30 AM
BATCH 2	TUS/THU/SAT	10.00 to 1.00PM
BATCH 3	MON/WED/FRI	7.00 to 10.00 AM
BATCH 4	MON/WED/FRI	11.00 to 1.30 PM
BATCH 5	SAT / SUN	1.00 to 3.00 PM
BATCH 6	SAT / SUN	5.00 to 8.00 PM

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6 BATCHES FOR CS PROFFSSINAL
IN T/T/S (7.30–9.30). T/T/S (10.00 -1.00) M/W/F (7.30–9.30. M/W/F(10.00 -1.00)
SAT/SUN (1.00 – 3.30) SAT/SUN(5.00 – 8.00)