

**PAPER-12**

**FINANCIAL MANAGEMENT & INTERNATIONAL FINANCE**

**REVALIDATION TEST PAPER-RV/12/AFM/2010**

**SECTION I-CAPITAL MARKET ANALYSIS**

(Answer Question **1** and any **FIVE** from the remaining)

**PART A**

1.(a) Define in brief:

- i) Factoring
  - ii) Put Option
  - iii) Capital Rationing
  - iv) Financial Leverage
  - v) Commercial Paper
  - vi) Rights issue
  - vii) IRR
  - viii) Redeemable Debenture
  - ix) Financial Restructuring
  - x) Systematic Risk
- 2\*10

(b) Distinguish between Economic Value Added & Economic Profit 5

**PART B**

2.(a) What are the main stages in the Capital Budgeting Process?

(b) AB Ltd is considering to buy an equipment and it has two options. The cost of the equipment is Rs 1,00,000.

Option I-To buy with borrowed funds at a cost of 18% pa, repayable in five equal instalments of Rs 32000.

Option II-To take equipment on lease on an annual rental of Rs. 32,000.

The salvage value of the equipment at the end of five year period will be zero. The company uses straight line depreciation. Assume tax @ 10%

Which of the two options would you recommend? 5+10

3(a) What is meant by Balance Score Card?

(b) Calculate the value of the share of a company, if its beta is 1.5, the previous Dividend was Rs2/- per share and the growth rate is expected to be 8%. The Risk free return is 10% and the market portfolio earns a return of 15%.

© The Risk free return is 6% and return on market portfolio on stock is 13%, Calculate beta.  
5+5+5

4(a) Comment on the emerging role of the Financial Manager in India.

(b) How does financial leverage increase the potential reward to the shareholders?

© What are the commonly employed measures of financial performance?  
5+5+5

5(a) If the value of a Malaysian Ringgit ( $\$/MR$ ) was 0.2632 and the value of an Indian rupee ( $\$/Rs$ ) was 0.02212. Find the value of a Malaysian Ringgit in terms of Indian Rupee?

(b) From the following quotes of a bank, determine the rate at which Yen can be purchased with Rs

Rs/Pd. Sterling-75.31-33  
Pd Sterling/Dollar-1.563-565  
Dollar/Yen-1.048/52(Per 100Yen)

© A spot rate is  $DM=\$0.3302-10$ . Another spot rate is  $FF=\$0.1180-90$ . Compute the direct quote of FF in Germany.  
5+5+5

6. XYZ & Co has three financial plans before it, Plan I, Plan II & Plan III. Calculate Operating and Financial Leverage for the firm on the basis of the following information and also find out the highest and lowest value of combined leverage:

Production-800 units  
Selling Price Per Unit-Rs15/-  
Variable Cost Per Unit-Rs10/-  
Fixed Cost  
    Situation A-Rs1000/-  
    Situation B-Rs2000/-  
    Situation C-Rs3000

Capital Structure	Plan I	Plan II	Plan III
Equity Capital	Rs5000/-	Rs7500/-	Rs2500/-
12% Debt	Rs5000/-	Rs2500/-	Rs7500/-

15 marks

7(a) The turnover of R Ltd is Rs60 lacs of which 80% is on credit. Debtors are allowed one month to clear off the dues. A factor is willing to advance 90% of the bills raised on a credit for a fee of 2% a month plus a commission of 4% on the total amount of debts. R Ltd as a result of this arrangement is likely to save Rs21600/- annually in management costs and avoid bad debts at 1% on credit sales.

A scheduled bank has come forward to make an advance equal to 90% of the debts at an interest of 18% pa. However its processing fee will be at 2% on debts.

Would you accept factoring or offer from the bank?

(b) What are the factors affecting dividend policies? 10+5

8 Write short notes on any three of the following:

- (a) SWOT Analysis
- (b) Leveraged Buy Outs
- (c) Bill of Entry
- (d) Future Contract 5\*3

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