MT EDUCARE LTD. – UVA

Date : 03/10/12 **Marks : 60**	**T.Y. B.M.S.** **Preliminary Examination – II** **Subject : Special Studies in Finance**	**Duration : 2 Hrs.** **Set No. :**

Notes :
1. SECTION – I : All questions are COMPULSORY
2. SECTION – II : Attempt any THREE out of FOUR questions
3. Figures to the RIGHT indicate marks

[SECTION – I]

Q.1 A] Attempt the following : (05)
1. Tax holiday
2. What is payback period ?
3. What is Ploughing back of Profit ?
4. What is Merchant Banker?
5. What is Right Shares ?

Q.1 B] Solve the following (Any two) (10)

1) From the following information for HEMAMBIKA Ltd. for the year ended 31st March, 2010, calculate the deferred tax asset / liability as per AS – 22.

Accounting Profit	₹ 1,00,000
Book Profit as per MAT (Minimum Alternate Tax)	₹ 90,000
Profit as per Income Tax Act	₹ 10,000
Tax Rate	30%
MAT Rate	10%

2) From the following information given compute the missing figures :

Sales Value	₹	20,00,000
Income	₹	4,00,000
Average Investment		?
Sales Margin%		?
Capital turnover (Times)		4 times
ROI%		?
Economic valued added	₹	?
Weighted average cost of capital		8%

3) Management of Zaheer Ltd. has two investment proposals. It is in a dilemma as to which project it should choose, as the funds available are sufficient to finance only one of the project. The details of the projects are :
Project X – Initial Cash Outlay ₹ 20 lakhs and present value of Cash Inflows ₹ 40,00,000.
Project Y – Initial Cash Outlay ₹ 8,00,000 and Present Value of Cash Inflows ₹ 20 lakhs.
Advise the management of Zaheer Ltd. as to which of the project it should choose based on Net present Value Method and Profitability Index Method. Which method should be preferred in case the results under both the answers conflict.

Q.2. The following data is available in respect of Jay Textiles Ltd. **(15)**

1. The company was incorporated in 1982 with the Promoters have an experience of more than 35 years in the textile field and is a brand leader in micro yarn.
2. The company proposes to borrow the term loan under TUFS (Technology Upgradation Fund Scheme).
3. The present installed capacity is 10 machines or 6000 TPA of polyester texturised yarn.
4. The additional investment will increase the installed capacity by 3600 TPA.
5. The present and proposed set up is at Silvassa a backward area and enjoys Income tax holiday for 5 years. Tax Rate is 40%.
6. GIIC, GSFC and SBI financed the present unit. All the accounts are regular.
7. The project will lead to economies of scale, reduced cost of production, higher production due to yarn speed being faster due to latest generation machine, best quality due to the modernized machine.
8. The expected ROI of the project is 18%.
9. Depreciation for Project is ₹ 400 Lacs every year.
10. The cost of proposed project and the means of finance are as follows :

Proposed Project	**₹ in Lacs**
Cost of Project	
Land and Site Development	27
Factory Building	155
Plant & Machinery	1,604
Electrical Installation	24
Misc. Fixed Assets	10
Pre-operative Expenses	20
Contingencies	67
Margin Money for Working Capital	93
Total	2,000
Means of Finance	
Promoter's Funds :	
Additional Equity Share Capital	300
Internal Cash Accrual	500
Term Loan	1,200
	2,000

11. The term lending institution has Interest rate of 13% for similar risk project and the loan is repayable in 5 years with installment and interest repayable at the end of each year.

    General Manager of the Term Lending Institution has requested you to

    (a) Prepare Flash Report from the point of view of the Term lending institution.

    (b) Evaluate the project for profitability in the next 5 years.

    (c) Calculate the Debt Service Coverage ratio for the Term Loan.

[SECTION – II]

Q.3. C Ltd. grants 100 stock options to each of its 1,000 employees on 1.4.2005 for ₹ 20,depending upon the employees at the time of vesting of options. The market price of the share is ₹ 50. These options will vest at the end of year 1 if the earning of Choice Ltd. increases 16%, or it will vest at the end of the year 2 if the average earning of two years increases by 13%, or lastly it will vest at the end of the third year if the average earning of 3years will increase by 10%. 5,000 unvested options lapsed on 31.3.2006. 4,000 unvested options lapsed on 31.3.2007 and finally 3,500 unvested options lapsed on 31.3.2008. Following is the earning of Choice Ltd. **(10)**

Year ended on	**Earning (in %)**
31.3.2006	14%
31.3.2007	10%
31.3.2008	7%

850 employees exercised their vested options within a year and remaining options were unexercised at the end of the contractual life. Pass Journal entries for the above.

Q.4. The Madras Trading Company purchased Motor Car from Bombay Motor Company on a Hire-Purchase agreement on 1st Jan, 2002; paying cash ₹ 10,000 and agreeing to pay further three installments of ₹ 10,000 each on 31st Dec. each year. The cash price of the car is ₹ 37,250 and Bombay Motor Company charges interest at 5% p.a. The Madras Trading Company writes off 10% p.a. as depreciation on the Reducing Instalment System. Journalise these transactions and prepare ledger accounts in the books of the Madras Trading Company. **(10)**

Q.5. Betterglass Co. Ltd. is evaluating two mutually exclusive projects. For each project the depreciable value is equal to net investment. Straight line depreciation (No Salvage Value) over a six year life is used in each case. The firm has 10% cost of capital. **(10)**

Particulars	**Project A**	**Project B**
Cost ₹	1,20,000	1,68,000
Year	Inflow ₹	Inflow ₹
1	32,000	44,000
2	32,000	48,000
3	32,000	52,000
4	32,000	40,000
5	32,000	30,000
6	32,000	28,000

(a) Calculate A.R.R. for each project
(b) Calculate Payback Period
(c) Calculate the N.P.V. of each project.

Note :

	PV of Annuity	**PV of ₹ 1**
Year	**10%**	**10%**
1	0.909	0.909
2	1.736	0.827
3	2.487	0.751
4	3.170	0.683
5	3.791	0.621
6	4.355	0.564

Q.6. Explain in brief Mutual Fund. Give advantages of mutual funds. **(10)**