TYBMS SSF

2004 - 05 60 marks 2 hrs. **Practice Paper 1**

Note: 1. Section I, Question No. 1 and 2 are compulsory.
2. Attempt any 3 questions from Section II.

SECTION I

Q 1. CONCEPT TESTING

a) What Is MAT?
b) Debt Service Coverage Ratio
c) Inflation And Asset Revaluation
d) Book Building Process
e) Mutual Fund

Q.2 Bright Metals Ltd. is considering two different investment proposals. The details are as under:

	Proposal A(Rs.)	Proposal B(Rs.)
Investment cost	**9,500**	**20,000**
Estimated income (net cash flows) at end of		
Year I	**4,000**	**8,000**
Year II	**4,000**	**8,000**
Year III	**4,500**	**12,000**

a. Suggest the most attractive proposal on the basis of excess present value methods considering that future incomes are discounted at 12%
b. Also find out internal rate of return of the two proposals.

SECTION II

Q.3 The data for various companies in the same industry and of about the same size are as follows: (All figures in million rupees.)

Company	A	B	C	D	E	F
Sales	10	20	8	5	12	17
Total Asset	8	10	6	2.5	4	8
Net Income	0.7	2	0.8	0.5	1.5	1.0

Determine the asset turnover, net profit margin and earning power (return on assets) for each of the companies. Also comment on the numbers.

Q.4 On March 31, 2003, the Balance Sheet of NTPC Ltd. disclosed the following position:

Liabilities	Rs.	Assets	Rs.
Subscribed Share Capital In Shares Of Rs. 10 Each, Fully Paid	4,00,000	Goodwill Other Fixed Asset Current Asset	40,000 5,00,000 4,00,000
General Reserve	1,90,000		
Profit And Loss Account	1,20,00		

	0		
14% Debentures	1,00,000		
Current Liabilities	1,30,000		
	9,40,000		**9,40,000**

On the above mentioned date, the tangible fixed assets were independently valued Rs.3,50,000 and goodwill at Rs.50,000. The net profits for the three years were:

2000-01	:	Rs. 1, 03,200;
2001-02	:	Rs. 1, 04,000; and
2002-03	:	Rs. 1, 03,300

Of which 20 percent was placed to general reserve, this proportion being considered reasonable industry in which the company is engaged and where a fair return on investment may be taken at 18 percent.

Compute the value of the company's share by:

a. Net Assets Method
b. The Yield Method
c. Fair Value Method

Ignore taxation.

Q.5 Why do investors have strong preference for Dividend rather than Bonus Shares.

Q.6 What are sources of International Finance.

Q.7 When prospectus is not required to be issued? AND What is Statement In Lieu Of Prospectus?

TYBMS SSF

2004 - 05 60 marks 2 hrs. **Practice Paper 2**

Note: 1. Section I, Question No. 1 and 2 are compulsory.
2. Attempt any 3 questions from Section II.

SECTION I

Q 1. CONCEPT TESTING **(15)**

f) Private Placement
g) Loan Syndication
h) Escrow Mechanism
i) IPO vs. PO
j) Modes of Security

Q 2. A fresh BMS was totally frustrated with the job he got as a result of the placement cell recruitment. Within one month of his stay in the organization he began to feel that he was "just a glorified clerk who was unable to put into practice all the wonderful things that the XYZ BMS College had taught him. He decided that enough is enough and he must make a noise about it.

One day, mustering all the courage he could (thanks to the rigorous training he had in Organizational Behavior) he walked up to his boss and said "Sir I am feel I am wasting my valuable youth in this organization. You might as well get a monkey to do all the trivial things you are making me do here."

The boss was calm and unperturbed. There was a gleam on his face, as he tried to fathom the implication of what he had just heard.. "A wonderful idea", indeed he muttered to himself. Then he took a pad and pencil and made the following notes:

a. Cost of monkey Rs. 20,000.
b. It would take 6 months to train the monkey.
c. Cost of the training (and feeding the monkey during the period of training Rs. 500 per month.
d. Annual cost of feeding the monkey and providing shelter to him Rs. 5,000.
e. Salary paid to the Manager Rs. 60,000 per year.
f. The monkey will have a life of 10 years. Cost of monkey can be written off on a straight line basis.
g. The firm pays tax at 40%
h. The cost of capital of the firm is 20%
i. Project-end scrap value is Nil.

While the boss was busy putting these points on paper, the phone bell rung. It was the Managing Director who wanted him immediately to discuss a new business proposal.

He trusts the pad into your hands and saying. "Let me have your remarks when I get beck" and rushes out to see the BIG BOSS……

(Present value of an annuity of Re. 1 @ 20% is 4.192)

Evaluate the proposal of replacing the Manager with the Monkey by applying NPV criteria. **(15)**

SECTION II

Q 3. Following data is available for two companies: **(10)**

	ABC (Rs.)	XYZ (Rs.)
Fixed Assets	1800000	800000
Current Assets	600000	1000000
Current Liabilities	400000	300000
Long Term Liabilities	400000	300000
Preference Share Capital	Nil	Nil
Profit Available To Equity SH	300000	250000
Equity Share Capital (Shares Of Rs. 10 Each)	800000	500000
Dividend Per Share	2	3
Market Price Per Share	40	45

Calculate:

i. Intrinsic Value of Shares
ii. Value Of Shares As Per Yield Method
iii. Dividend Pay Out Ratio
iv. Price Earning Ratio

Q 4. King Kong India furnishes you the following information:

Income Statement Of The Year Ending 31.3.2005

	Amount Rs.	Asset	Amount Rs.
To Cost Of Sales	10140000	By Sales (Includes Export Sales)	15600000
To Gross Profit c/d	5460000		15600000
	15600000		**5460000**
To Administration Expenses	1540000	By Gross Profit b/d	
To Finance Expenses	600000		
To Selling And Distribution Expenses	900000		
To Depreciation	420000		
To Transfer To General Reserve	500000		
To Interim Dividend Paid	30000		
To Proposed Dividend	120000		
To Income Tax Provision	675000		
To Net Profit	675000		
	5460000		**5460000**

Additional information:

1. Depreciation as per income tax act is Rs. 420000.
2. Brought forward loss of last year Rs.1500000.
3. Unabsorbed depreciation Rs.60000.

4. Amount eligible as deduction u/s 80HHC Rs.122250.
5. Corporate tax rate is @ 30%+ surcharge @ 10%.
6. MAT u/s 115JB is @ 7.5%+ surcharge @ 10%.

You are required to calculate the amount of tax payable by the company for the year ended 31-3-2005 after taking into account the provision of MAT u/s 115JB of income tax act, 1961.

Q 5. Define Term Loan and state the steps in Term Loan Procedure. **(10)**

Q 6. What is Bonus Shares? State advantages of Bonus Shares to Shareholders and Company. **(10)**

Q 7. State the Factors affecting the Dividend Policy. **(10)**

Narsee Monjee Prelim Paper SSF

2004 - 05 60 marks 2 hrs. **Practice Paper 3**

Note: 1. Section I, Question No. 1 and 2 are compulsory.
2. Attempt any 3 questions from Section II.

SECTION I

Q 1. CONCEPT TESTING **(15)**

a) Book Running Lead Manager
b) Minimum Subscription
c) Escrow Mechanism
d) Du Pont Formula of ROI
e) Sec. 115 JB on MAT

Q 2. A fresh BMS was totally frustrated with the job he got as a result of the placement cell recruitment. Within one month of his stay in the organization he began to feel that he was "just a glorified clerk who was unable to put into practice all the wonderful things that the XYZ BMS College had taught him. He decided that enough is enough and he must make a noise about it.

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g. The firm pays tax at 40%
h. The cost of capital of the firm is 20%
i. Project-end scrap value is Nil.

While the boss was busy putting these points on paper, the phone bell rung. It was the Managing Director who wanted him immediately to discuss a new business proposal.

He trusts the pad into your hands and saying. "Let me have your remarks when I get beck" and rushes out to see the BIG BOSS……

(Present value of an annuity of Re. 1 @ 20% is 4.192)

Evaluate the proposal of replacing the Manager with the Monkey by applying NPV criteria. **(15)**

SECTION II

Q 3. The director of the following Indian company has approached you with their concern for the current business scenario and future prospects.

Infosys Software Ltd. is a well established company in the field of software development, e-service provider and man power consultancy service. Its clientele is mainly in the banking, airways and transport sector. Almost 60% of the revenue comes from overseas clients. It has shown a steady growth and progress for last five years and has paid dividend of 15%, 15%, 17%, 20%, and25%, and still a large amount of profits were ploughed back every year. Till December 2003 everything was going smoothly, but all of a sudden the overseas countries having maximum business associates, saw the rise of anti-outsourcing agitations. The problem got further aggravated by rupee becoming stronger day by day against the US dollar. The company some how managed to complete the ongoing contract but is not so sure of the future prospects. The company is also in the process of finalizing new business ventures with " non- affected countries" and also taking steps to expand its operations more in India. The company is hopeful of getting the better results for all its efforts.

Give your guidance in above case, with special reference to the issues related to Dividend/Bonus policy and future share price behavior on the Stock Exchange.

Q 4. The following data is available in respect of PJ Textiles Ltd.: **(10)**

i. The company as incorporated in 2002 with the promoters having experience of more than 35 years in the textile field and is a brand leader in micro yarn.
ii. The company proposes to borrow the term loan under TUFS (Technology Up gradation Funds Scheme).
iii. The present installed capacity is 10 machines or 6000 TPA or polyester texturised yarn.
iv. The additional investment will increase the installed capacity by 3600 TPA.
v. The present and proposed set up is at Silvassa a backward area and enjoys income tax holiday for 5 years. Tax rate is 40%.
vi. ICICI, IDBI and SBI financed the present unit.
vii. The project will result into 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.
viii. The expected ROI of the project is 18 % (ROI = EBIT / Total Assets x 100).
ix. Depreciation for project is Rs.400 lakhs every year.
x. The cost of proposed project and the means of finance are as follows:

Proposed Project	**Rs. In Lakhs**
Cost Of Project	
Land And Site Development	27
Factory Building	155
Plant And Machinery	1604
Electrical Installation	24
Misc. Fixed Assets	10
Pre Operative Exp.	20
Contingencies	67
Margin Money For Working Capital	93
Total	**2000**
Means Of Finance	
Promoters Funds	
Additional Equity Share Capital	300
Internal Cash Accrual	500
Term Loan	1200
Total	**2000**

xi. The term lending institution has interest rate of 10 % for similar risk project and the term 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.

Q 5. For division/allocation of Reliance Group Companies between the Ambani Brothers which method of Share Valuation do you propose and why? **(10)**

Q 6. What is Buy Back of Shares? State four rationale of Buyback with reference to RIL case. **(10)**

Q 7. State 14 principal steps in IPO. **(10)**

Hints and Model Answers:

Escrow Mechanism : the company shall open Escrow Account with Escrow Collection Bank in whose favor the Bidders shall make out the cheque or demand draft. The Monies in the Escrow A/c shall be maintained by Escrow Collection Bank on behalf of the Bidders. The Escrow Collection Bank shall hold the monies in trust for the Bidders. On the designated date the Escrow Collection Bank shall transfer the monies from the Escrow A/c to the Public Issue A/c with the Bankers to the issue. Payments of refunds to the Bidders shall also be made from the Escrow A/c as per the terms of Escrow agreement and red herring prospectus.

Q 2. Solution:

		Rs.
Annual Salary to Manager		60000
(-) Annual Cost of feeding		5000
Net Annual Savings before Dep. & Tax		**55000**
(-) Depreciation (20000 + 3000) / 10 years		2300
Net Savings Before Tax		**52700**
(-) Tax @ 40%	21080	
Net savings After Tax		**31620**
(+) Depreciation		2300
Annual Cash Inflow		**33920**
(x) PV for 10 years annuity rate		x 4.192
PV of Cash Inflow		**142193**
(-) PV of Cash Outflow		23000
Net Present Value		**119193**

Recommendation : Since NPV is positive Monkey should replace the Manager. (logically it is not possible though!!)

More Problems for More Practice

1) Following is the Balance sheet of Reliance Ind. ltd as on 31-12-2003

Liabilities	Rs.	Assets	Rs.
1000 Equity shares of Rs. 100	1,00,000	Goodwill	5,000
1000 Pref. Shares of Rs. 100 each	1,00,000	Land and Building	1,05,000
General Reserve	15,000	Machineries	55,000
Dividend Equalisation Reserve	5,000	Stock (at cost)	45,000
Emp. Compensation Fund (represented by investment in securities)	5,000	Sundry Debtors	20,000
Employees Savings A/c.	10,000	Cash in hand	5,000
Sundry Creditors	25,000	Cash at Bank	1,15,000
Unappropriated Profits	1,00,000	Investment (NSC)	5,000
	3,60,000		3,60,000

Additional information:
Goodwill is to be taken at Rs. 50000. 10% of the sundry debtors are bad. Claim for compensation of Rs. 100000 of an employee has been admitted to the extent of Rs. 1000.
On 1st Jan 2004 there was a buyback of 100 Equity shares at a premium of Rs. 100 per share.
You are requested to calculate the intrinsic value of the equity shares;

a) Before Buyback of Equity shares
b) After Buyback of shares.

Hint to Solve:
In Buy Back Cash will reduce by {100 x (100 + 100)} = Rs. 20000 – Asset Side Effect
No. of Shares will reduce by 100 x 100 = Rs. 10000 – Liability side
General Reserve will reduce by 100 x 100 = Rs. 10000 – Liability side

c) Intrinsic Value = Numerator same as a) less Rs. 20000
and denominator will be 900 shares

2) The management of ABC ltd. is thinking of buying either Machine X or Machine Y. The following details have been furnished:

Particulars	X	Y
Purchase price	1,80,000	2,00,000
Annual Fixed costs (including depreciation)	1,08,000	1,32,000
Variable running costs (including labour)	1.50	2.50

per unit		
Production per hour (unit)	8	12

You are also provided with the following details:

Selling price per unit	Rs. 20
Cost of materials per unit	10
Annual operating hours	2000
Working life of each machine	5

Salvage value of machine X is Rs. 15,000 and Y is Rs. 18,000.
The company charges depreciation using straight-line method. It is anticipated that an additional cost of Rs. 8,000 per annum would be incurred on special advertising to sell the extra output of machine Y. Assume a tax rate of 50% and the cost of capital to be 10%.
Using NPV method you are required to analyse the feasibility of the proposals and make recommendations.

HINT
Additional cost of Rs. 8000 on Advertising for Machine Y is to be Deducted as expense (either as variable or fixed cost). Therefore EBDIT will reduce by Rs. 8000.

3) A Company wants to start a new project. The cost of the project is Rs.900 crores. Out of which 75% is for capital assets. The Capital asset is depreciated over a period of 3 year at the rate of 33.1/3%. The excepted sales turnover is Rs.600 crore. The variable cost is 50% fixed cost is 5% excluding depreciation and interest.

The company has resources to the extent of 50% of cost of project. The company has never defaulted in the previous borrowing.

The rate of interest to be charged is 12% p.a. The company has to pay 6 installments half yearly along with the interest. The company wants to borrow from financial institution around 240 crore. The balance finance above Rs. 210 crore is available from the bank at 14% p.a.
You are required to find out the profitability of the project and calculate relevant ratios for granting loan. Tax rate applicable to company is 40%.

FI 240 @ 12% per annum
Bank 210 @ 14% per annum
Company Resources 450
Therefore Total Cost of Project = 900'

Amortization Schedule

Beginning	P	I	P Inst.	T Inst.	End
01.01.01	240	14.4	40	54.4	200
01.07.01	200	12.0	40	52	160
01.01.02	160	9.6	40	49.6	120
01.07.02	120	7.2	40	47.2	80
01.01.03	80	4.8	40	44.8	40
01.07.03	40	2.4	40	42.4	nil

REVENUE STATEMENT PREPARE FOR ALL 3 YEARS

YEAR	1	2	3
SALES		600	
- VC	300		
CONT	300		
-FC	30		
EBDIT	270		
-D	300		
EBIT	(30)		
-I (26.4+29.4)		55.8	
EBT	(85.8)		
-T	0		
EAT	(85.8)	(76.2)	(66.6)

From these calculate the ratios.

4) Prosperous limited had net worth of Rs. 40,00,000 on which it earned average post tax profit of Rs. 12,00,000. The number of equity shares of Rs. 10 each is 50000.
The company made a right issue of 10000 equity shares of Rs. 10 each at an issue price of Rs. 100 per share.
These additional funds were expected to yield a post tax profit of Rs. 2,50,000.
You are asked to value equity share both before and after rights issue on:
1. Net assets basis and
2. On profitability basis.

You are informed that post tax yield expected for shares of similar companies is 8%.

HINT :

Profitability method is same like Yield Method.

5) A Ltd. is engaged in the business of manufacture of garments.
P & L A/c for the year ending March 31, 2004 is as follows –

		Rs.

Sale proceeds of goods (domestic sale)		22,23,9
Sale proceeds of goods (export sale)		00
Amount withdrawn from General		5,76,1
Reserve		00
Agriculture Income		2,00,0
Total		00
<u>Less: Expenses:</u>	6,16,000	2,00,000
Depreciation	1,80,000	32,00,000
	10,000	
Salary and wages	20,000	
	3,50,000	
Loss of subsidiaries	17,500	
Provision for unascertained liability	6 60,000	
Income-tax	7 21, 000	
Outstanding customs duty (not paid	1,39,000	
as yet)	25,000	
Proposed dividend	75,000	
Consultation fees paid to a tax expert	25,000	
(paid in cash)	50,000	
Net Profit		15,86,500

For tax purposes the company wants to claim the following:

(i) Deduction u/sec 80 HHC, foreign exchange remittance: Rs. 5 lacs.

(ii) Deduction u/sec 80 - IB Rs. 1,25,000

(iii) Deduction u/sec 32 for Depreciation Rs. 5,36,000.

(iv) Preliminary expenses are allowed to the extent of 1/5th for income tax purpose.

(v) The Company wants to set-off the following losses / allowances:

	For Tax ***Purpose*** Rs.	For Accounting Purposes Rs.
Brought forward loss of 1998-99	14,80,000	4,00,000
Unabsorbed depreciation	-----	70,000

Compute the net income and tax liability of A Ltd. for the assessment year 2004-05.

Suggestion / Hints:

		Rs.	Rs.
Sale Domestic			
Export			2800000
(-) Depr. As per books	616000		
		210000	
		21000	
		<u>139000</u>	<u>986000</u>
NPBT		1814000	
(+) Depr. As per books			616000
(-) Depr. As per IT		616000	
Business Income			1814000
(-) B/f Loss		1480000	
Business Taxable Income			334000

(+) Long Term Capital Gain			60000	
(-) Deduction				
u/s 80 HHC (50% x (Business Income/ Total Sales) x 500000)				161964
u/s 80 IB (30% x Business Taxable Income)				100200
Net taxable Income			131836	
Therefore				
Tax Liability under Normal Provision				
60000 x 20%			12000	
*71836 x 35%			25143	
				37143
(+) Surcharge @ 5%			1857	
				39000
Tax Liability under MAT				
NPBT			1814000	
(-) O/s Custom Duty	17400			
Unabsorbed Depr.		70000		
80 HHC		161964		249364
Book Profit			1564636	
Tax @ 7.5%			117348	
Surharge @5%				5867
TOTAL LIABILITY UNDER MAT			123215	

Answer : Therefore Tax Payable as Per 115 JB is Rs. 123215.

All the Best for the SSF Paper !!