Test - 1		
Time Allowed: 1 hr. 30 minutes	**31-Dec-2018**	**Total Marks :50 Marks**

Q.1: Explain Scenario Analysis. **(4 Marks)**

Q.2: New Style Limited is considering the replacement of one of its moulding machines. The existing machine is in good operating condition, but is smaller than required if the firm is to expand its operations. The old machine is 5 years old, and has remaining depreciable life of 10 years.

The machine was originally purchased for ₹ 1,50,000 and is being depreciated at ₹ 10,000 per year for tax purposes. It can be now sold for ₹ 50,000.

The new machine will cost ₹ 2,20,000. It will be depreciated on a straight line basis for 10 years, with no salvage value. The management anticipates that, with the increased operations, there will be need for an additional net working capital of ₹ 30,000. The new machine will allow the company to expand current operations, thereby increasing annual revenue by ₹ 60,000 and variable operating cost from ₹2,00,000 to ₹ 2,20,000. The company's tax rate is 35% and its cost of capital is 10%. Should the company replace its existing machine? **(5 Marks)**

Q.3: A company is currently considering the replacement of a machine originally costing ₹ 50,000. The current book value of the machine is Nil and it can continue for another 6 years after which it will have nil salvage value. The cost of new machine is 2,10,000 but it will require another ₹ 30,000 to install it. New machine is also likely to last 6 years with no salvage value. The projected profits from the existing and new machine are as under:

Years		**1**	**2**	**3**	**4**	**5**	**6**
Expected profits after tax	**Existing Machine (₹)**	2,00,000	2,50,000	3,10,000	3,60,000	4,10,000	5,00,000
	New Machine (₹)	2,40,000	3,10,000	3,50,000	4,10,000	4,30,000	5,10,000

The tax rate is 40%. The company uses straight line method of depreciation and the same is allowed for tax purposes. Cost of capital is 12%. If the new machine is purchased, the existing machine can be sold for ₹ 25,000. Advise the company about the feasibility of the proposal.

(PVF at the end of years 1, 2, 3, 4, 5 & 6 are .893, 0.797, 0.712, 0.636, 0.567 & 0.507) **(5 Marks)**

Q.4: A company is considering the purchase of a new machine out of following two machines: -

Particulars	**Machine MX**	**Machine MY**
Cost of Machine (₹)	8,00,000	10,20,000
Expected Life	6 years	6 years
Scrap Value (₹)	20,000	30,000

Profit before Depreciation	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Machine MX	2,50,000	2,30,000	1,80,000	2,00,000	1,80,000	1,60,000
Machine MY	2,70,000	3,60,000	3,80,000	2,80,000	2,60,000	1,85,000

Additional Information: -

(a) Tax Rate is 30% **(b)** Cost of Capital is 10% **(c)** Depreciation would by straight line method

You are **required** to **c**alculate NPV and suggest the best machine to be purchased. **(8 Marks)**

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Q.5: XYZ Company limited is a pipe manufacturing company. Its production cycle indicates that materials are introduced in the beginning of the production cycle, wages and overheads accrue evenly throughout the period of the cycle. Wages are paid in the next month following the month of accrual. Work in process includes full units of raw materials used in the beginning of the production process and 50% of wages and overheads are supposed to be conversion costs. Details of production process and the components of working capital are as follows –

Production pipes - 12,00,000 units p.a.	Credit given to debtors 2 months
Duration of the production cycle - 1 month	Cost price of raw materials ₹ 60 per unit
Raw materials inventory held - 1 month consumption	Direct wages ₹ 10 per unit
Finished goods inventory held for - 2 months	Overheads ₹ 20 per units
Credit allowed by creditors - 1 month	Selling price of finished pipes ₹ 100 per unit

You are **required** to calculate the amount of working capital required for the company. **(8 Marks)**

Q.6 Define International Trade and make its comparison with internal trade. **(2 Marks)**

Q.7 Comparative Advantage Theory v/s Factor Endowment **(3 Marks)**

Q.8 Explain Ad-Valorem Tariff. **(2 Marks)**

Q.9 Write a note on export related measures as a policy of international trade. **(3 Marks)**

Q.10 Explain Unilateral Trade Agreement. and Bilateral Trade Agreement. **(2 Marks)**

Q.11 What do you know about DOHA Round. **(3 Marks)**

Q.12 Explain Vertical FDI. **(2 Marks)**

Q.13 FDI v/s FPI **(3 Marks)**

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