MOCK TEST PAPER –1

INTERMEDIATE: GROUP – II

PAPER – 8: FINANCIAL MANAGEMENT & ECONOMICS FOR FINANCE

PAPER 8A: FINANICAL MANAGEMENT

Answers are to be given only in English except in the case of the candidates who have opted for Hindi medium. If a candidate has not opted for Hindi medium his/ her answers in Hindi will not be valued.

Question No. **1** is compulsory.

Attempt any **four** questions from the remaining **five** questions.

Working notes should form part of the answer.

Time Allowed – 3 Hours (Total time for 8A and 8B)　　　　　　　　　　**Maximum Marks – 60**

1.　Answer the following:

　　(a)　The following figures have been extracted from the annual report of Xee Ltd.:

Net Profit	₹ 75 lakhs
Outstanding 12% preference shares	₹ 250 lakhs
No. of equity shares	3 lakhs
Return on Investment	20%
Cost of capital i.e. (K$_e$)	16%

　　　　COMPUTE the approximate dividend pay-out ratio so as to keep the share price at ₹ 105 by using Walter's model?

　　(b)　Owner's equity of Yay Ltd. is ₹ 6,00,000. The financial ratios of the company are given below:

Current debt to total debt	0.4
Total debt to Owner's equity	0.6
Fixed assets to Owner's equity	0.6
Total assets turnover	2 times
Inventory turnover	8 times

　　　　COMPLETE the following Balance Sheet from the information given above:

Liabilities	(₹)	Assets	(₹)
Current Debt	-	Cash	-
Long-term Debt	-	Inventory	-
Total Debt	-	Total Current Assets	-
Owner's Equity	-	Fixed Assets	-
	9,60,000		-

　　(c)　The capital structure of Roshan Ltd. for the year ended 31st March, 2022 consisted as follows:

Particulars	Amount (₹' 000)
Equity share capital (face value ₹ 100 each)	1,50,000
10% debentures (₹ 100 each)	1,50,000

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During the year 2021-22, sales of the company decreased to 15,00,000 units as compared to 18,00,000 units in the previous year. However, the selling price stood at ₹ 120 per unit and variable cost at ₹ 80 per unit for both the years. The fixed expenses were at ₹ 3 crore p.a. and the income tax rate is 30%.

You are required to CALCULATE the following:

(i) The degree of financial leverage at 18,00,000 units and 15,00,000 units.

(ii) The degree of operating leverage at 18,00,000 units and 15,00,000 units.

(iii) The percentage change in EPS.

(d) (i) A company's equity share is quoted in the market at ₹ 125 per share currently. The company pays a dividend of ₹ 10 per share and the investor's market expects a growth rate of 6% per year. CALCULATE the company's cost of equity capital.

(ii) If the company issues 10% debentures of face value of ₹ 100 each and realises ₹ 98 per debenture while the debentures are redeemable after 12 years at a premium of 10%, CALCULATE cost of debenture using YTM?

Assume Tax Rate to be 50%. **[4 × 5 Marks = 20 Marks]**

2. PRI Ltd. and SHA Ltd. are identical, however, their capital structure (in market-value terms) differs as follows:

Company	Debt	Equity
PRI Ltd.	60%	40%
SHA Ltd.	20%	80%

The borrowing rate for both companies is 8% in a no-tax world and capital markets are assumed to be perfect.

(a) (i) If Mr. Rhi, owns 6% of the equity shares of PRI Ltd., DETERMINE his return if the Company has net operating income of ₹ 9,00,000 and the overall capitalization rate of the company (K_o) is 18%.

(ii) CALCULATE the implied required rate of return on equity of PRI Ltd.

(b) SHA Ltd. has the same net operating income as PRI Ltd.

(i) CALCULATE the implied required equity return of SHA Ltd.

(ii) ANALYSE why does it differ from that of PRI Ltd. **[10 Marks]**

3. Following information is forecasted by Gween Limited for the year ending 31st March, 2022:

	Balance as at 31st March, 2022 (₹ in lakh)	Balance as at 31st March, 2021 (₹ in lakh)
Raw Material	845	585
Work-in-progress	663	455
Finished goods	910	780
Receivables	1,755	1,456
Payables	923	884
Annual purchases of raw material (all credit)	5,200	
Annual cost of production	5,850	
Annual cost of goods sold	6,825	

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Annual operating cost	4,225	
Annual sales (all credit)	7,605	

Considering one year as equal to 365 days, CALCULATE:

(i)   Net operating cycle period.

(ii)   Number of operating cycles in the year.

(iii)   Amount of working capital requirement. **[10 Marks]**

4.   A manufacturing company is presently paying a garbage disposer company ₹ 0.50 per kilogram to dispose-off the waste resulting from its manufacturing operations. At normal operating capacity, the waste is about 2,00,000 kilograms per year.

After spending ₹ 1,20,000 on research, the company discovered that the waste could be sold for ₹ 5 per kilogram if it was processed further. Additional processing would, however, require an investment of ₹ 12,00,000 in new equipment, which would have an estimated life of 10 years with no salvage value. Depreciation would be calculated by straight line method.

No change in the present selling and administrative expenses is expected except for the costs incurred in advertising ₹ 40,000 per year, if the new product is sold. Additional processing costs would include variable cost of ₹ 2.50 per kilogram of waste put into process along with fixed cost of ₹ 60,000 per year (excluding Depreciation).

There will be no losses in processing, and it is assumed that the total waste processed in a given year will be sold in the same year. Estimates indicate that 2,00,000 kilograms of the product could be sold each year.

The management when confronted with the choice of disposing off the waste or processing it further and selling it, seeks your ADVICE. Which alternative would you RECOMMEND? Assume that the firm's cost of capital is 15% and it pays on an average 50% Tax on its income.

Consider Present value of Annuity of ₹ 1 per year @ 15% p.a. for 10 years as 5.019.   **[10 Marks]**

5.   (a)   X Ltd. is considering two mutually exclusive projects A and B.

Net Cash flow probability distribution of each project has been given below:

Project-A		Project-B	
Net Cash Flow (₹)	Probability	Net Cash Flow (₹)	Probability
1,72,000	0.30	3,38,000	0.20
1,82,000	0.30	3,18,000	0.30
1,92,000	0.40	2,98,000	0.50

(i)   COMPUTE the following:

(I)   Expected Net Cash Flow of each project.

(II)   Variance of each project.

(III)   Standard Deviation of each project.

(IV)   Coefficient of Variation of each project.

(ii)   IDENTIFY which project do you recommend? Give reason. **[8 Marks]**

(b)   DISTINGUISH between Sensitivity Analysis & Scenario Analysis. **[2 Marks]**

6. (a) 'Financial distress is a position where Cash inflows of a firm are inadequate to meet all its current obligations.'

    Based on above mentioned context, EXPLAIN Financial Distress along with Insolvency.   **[4 Marks]**

    (b) EXPLAIN any four types of Packing Credit.   **[4 Marks]**

    (c) EXPLAIN in brief Callable bonds and Puttable bonds.

                                              Or

    STATE in brief four features of Samurai Bond.   **[2 Marks]**

PAPER 8B: ECONOMICS FOR FINANCE

Time Allowed – 1:15 Hours   **Maximum Marks - 40**

QUESTIONS

1. (a) How does national income can be explained as a flow concept?   **(2 Marks)**

    (b) How GDP and GNP differ in their treatment of international transaction?   **(3 Marks)**

    (c) What role tariff plays as response to trade distortions?   **(2 Marks)**

    (d) Calculate Gross National Product at Market Price Using Value added Method: **(3 Marks)**

	₹ in Crores
Value of output in Primary Sector	700
Value of output in Secondary Sector	900
Value of output in tertiary Sector	1000
Intermediate Consumption in Primary Sector	350
Intermediate Consumption in Secondary Sector	250
Intermediate Consumption in Tertiary Sector	100
Net Factor from Abroad	40

2. (a) Explain Investment multiplier and its relevance in two sector model?   **(2 Marks)**

    (b) According to Keynesian theory of income and employment how aggregate effective demand helps in determining national income?   **(3 Marks)**

    (c) Calculate Equilibrium level of national income from the following data: **(3 Marks)**

    $C = 20+0.60\ Yd$

    $I = 80$

    $G = 30$

    $T = 30$

    (d) Calculate the Velocity of Money: **(2 Marks)**

    Money Supply = 2000

    Price = 100

    Value of Transaction: 60

3. (a) Explain how the role of State is Pivotal in Public Finance?   **(3 Marks)**

    (b) What are the conflict in designing budgetary Policy?   **(2 Marks)**

    (c) What are the rationale for the government Stabilization Function?   **(2 Marks)**

    (d) Explain the Characteristic of Private Good.   **(3 Marks)**

4. (a) What are the distinction between pure and impure public good?   **(3 Marks)**

    (b) Elucidate the limitation of Fiscal Policy?   **(2 Marks)**

    (c) What is Balanced budget multiplier?   **(2 Marks)**

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(d) How does the Situation of Liquidity Trap happen? **(3 Marks)**

5. (a) Explain the reason for empirical analysis of money supply? **(3 Marks)**

    (b) What are the indirect instrument of implementing monetary policy? **(2 Marks)**

    (c) Explain the importance of market stabilization Scheme? **(3 Marks)**

    (d) Do International Trade beneficial for all nations? **(2 Marks)**

OR

What role tariff plays as response to trade distortions?