Test Series: March, 2018

MOCK TEST PAPER

INTERMEDIATE (NEW): 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.

Total Time Allowed – 3 Hours (For both the part of paper 8) **Maximum Marks – 60**

1. Answer the following:

(a) A company had paid dividend of ₹ 2 per share last year. The estimated growth of the dividends from the company is estimated to be 5% p.a. DETERMINE the estimated market price of the equity share if the estimated growth rate of dividends (i) rises to 8%, and (ii) falls to 3%. Also COMPUTE the present market price of the share, given that the required rate of return of the equity investors is 15.5%.

(b) Based on the following particulars, PREPARE a balance sheet showing various assets and liabilities of T Ltd.

Fixed assets turnover ratio	8 times
Capital turnover ratio	2 times
Inventory Turnover	8 times
Receivable turnover	4 times
Payable turnover	6 times
GP Ratio	25%

Gross profit during the year amounts to ₹ 8,00,000. There is no long-term loan or overdraft. Reserve and surplus amount to ₹ 2,00,000. Ending inventory of the year is ₹ 20,000 above the beginning inventory.

(c) The following information is related to YZ Company Ltd. for the year ended 31st March, 20X8:

Equity share capital (of ₹ 10 each)	₹ 50 lakhs
12% Bonds of ₹ 1,000 each	₹ 37 lakhs
Sales	₹ 84 lakhs
Fixed cost (excluding interest)	₹ 6.96 lakhs
Financial leverage	1.49
Profit-volume Ratio	27.55%
Income Tax Applicable	40%

You are required to CALCULATE:

(i) Operating Leverage;

(ii) Combined leverage; and

(iii) Earnings per share.

(Show calculations upto two decimal points.)

(d) Sundaram Ltd. discounts its cash flows at 16% and is in the tax bracket of 35%. For the acquisition of a machinery worth ₹10,00,000, it has two options – either to acquire the asset by taking a bank loan @ 15% p.a. repayable in 5 yearly instalments of ₹ 2,00,000 each plus interest or to lease the asset at yearly rentals of ₹ 3,34,000 for five (5) years. In both the cases, the instalment is payable at the end of the year. Depreciation is to be applied at the rate of 15% using 'written down value' (WDV) method. You are required to STATE with reason which of the financing options is to be exercised.

Year	1	2	3	4	5
P.V factor @16%	0.862	0.743	0.641	0.552	0.476

(4 × 5 = 20 Marks)

2. XYZ Ltd. is considering three financial plans for which the key information is as below:

(i) Total investment to be raised ₹4,00,000.

(ii) Plans of Financing — Proportion

Plans	Equity	Debt	Preference shares
A	100%	-	-
B	50%	50%	-
C	50%	-	50%

(iii) Cost of debt 8%

Cost of preference shares 8%

(iv) Tax Rate is 50%

(v) Equity shares of the face value of ₹10 each will be issued at a premium of ₹10 per share.

(vi) Expected EBIT is ₹1,60,000

DETERMINE for each plan:

(i) Earnings per share (EPS)

(ii) Financial break-even point.

(iii) COMPUTE the EBIT range among the plans A and C for point of indifference. ***(10 Marks)***

3. A newly formed company has applied to the commercial bank for the first time for financing its working capital requirements. The following information is available about the projections for the current year:

Estimated level of activity: 1,04,000 completed units of production plus 4,000 units of work-in-progress. Based on the above activity, estimated cost per unit is:

Raw material	₹80 per unit
Direct wages	₹30 per unit
Overheads (exclusive of depreciation)	₹60 per unit
Total cost	₹170 per unit
Selling price	₹200 per unit

Raw materials in stock: Average 4 weeks consumption, work-in-progress (assume 50% completion stage in respect of conversion cost) (materials issued at the start of the processing).

Finished goods in stock	8,000 units
Credit allowed by suppliers	Average 4 weeks
Credit allowed to debtors/receivables	Average 8 weeks

Lag in payment of wages | Average $1\frac{1}{2}$ weeks

Cash at banks (for smooth operation) is expected to be ₹25,000

Assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.

CALCULATE Net Working Capital. ***(10 Marks)***

4. G Limited has the following capital structure, which it considers to be optimal:

Capital Structure	Weightage (in %)
Debt	25
Preference Shares	15
Equity Shares	60
	100

G Limited's expected net income this year is ₹ 34,285.72, its established dividend payout ratio is 30 per cent, its tax rate is 40 per cent, and investors expect earnings and dividends to grow at a constant rate of 9 per cent in the future. It paid a dividend of ₹ 3.60 per share last year, and its shares currently sells at a price of ₹ 54 per share.

G Limited requires additional funds which it can obtain in the following ways:

- Preference Shares: New preference shares with a dividend of ₹ 11 can be sold to the public at a price of ₹95 per share.
- Debt: Debt can be sold at an interest rate of 12 per cent.

You are required to:

(i) DETERMINE the cost of each capital structure component; and

(ii) COMPUTE the weighted average cost of capital (WACC) of G Limited. ***(10 Marks)***

5. You are a financial analyst of B Limited. The director of finance has asked you to analyse two capital investments proposals, Projects X and Y. Each project has a cost of ₹10,000 and the cost of capital for each project is 12 per cent. The project's expected net cash flows are as follows:

Year	Expected net cash flows	
	Project X (₹)	Project Y (₹)
0	(10,000)	(10,000)
1	6,500	3,500
2	3,000	3,500
3	3,000	3,500
4	1,000	3,500

(i) CALCULATE each project's payback period, net present value (NPV) and internal rate of return (IRR).

(ii) DETERMINE, which project or projects should be accepted if they are independent? ***(10 Marks)***

6. (a) DISCUSS Various Sources of Risk.

(b) EXPLAIN Financial Distress and explain its relationship with Insolvency.

(c) STATE Modified Internal Rate of Return method. ***(4+4+2 = 10 Marks)***

MOCK TEST PAPER

INTERMEDIATE (NEW): GROUP – II

PAPER – 8: FINANCIAL MANAGEMENT & ECONOMICS FOR FINANCE

PAPER – 8B: ECONOMICS FOR FINANCE

Time Allowed - .... **Maximum Marks - 40**

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 **1** is **compulsory question.**

Attempt **any three** from the remaining four questions

In case, any candidate answers extra questions(s)/sub-question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered will be the evaluated the rest answer shall be ignored

Working Notes should form part of the answer.

1. (a) Distinguish between Personal Income and Disposable Income.

(b) What will be the total credit created by the commercial banking system for an initial deposit of ₹ 1000 for required reserve ratio 0.02, 0.05 and 0.10 per cent respectively? Compute credit multiplier.

(c) The table below shows the number of labour hours required to produce wheat and cloth in two countries X and Y.

Commodity	Country X	Country Y
1 unit of cloth	4	1.0
I unit of wheat	2	2.5

(i) Compare the productivity of labour in both countries in respect of both commodities

(ii) Which country has advantage in the production of wheat?

(iii) Which country has absolute advantage in the production cloth?

(d) Define Externalities? Given example of each type of externalities. ***(2 + 2 + 3 + 3 = 10 Marks)***

2. (a) You are the Finance Minister of India. You find that the country is passing through recession. As Finance Minister what suggestions will you make to the Government of India to bring the country out of recession. Justify your answer. ***(5 Marks)***

(b) (i) Find GDP_{MP} and GNP_{MP} from the following data (in Crores of ₹) using Income method. Show that it is the same as that obtained by Expenditure method.

Personal Consumption	7314
Depreciation	800
Wages	6508
Indirect Business Taxes	1000
Interest	1060

Domestic Investment	1442
Government Expenditures	2196
Rental Income	34
Corporate Profits	682
Exports	1346
Net Factor Income from Abroad	40
Mixed Income	806
Imports	1408

(ii) What would be the effect of automatic stabilizers on multiplier? ***(3 + 2 Marks)***

3. (a) (i) Define public good. Why do you consider national defence as a public good?

(ii) Define 'moral hazard'. ***(3 + 2 Marks)***

(b) (i) Suppose that the consumption function is C = 200 + 0.6Y and the income level is 2000 billion. Calculate what consumers intend to consume and save at this income level.

(ii) An increase of investment by ₹ 600 Crores resulted in an increase in national income by 2400 Crores. Find MPC and MPS. ***(2 + 3 Marks)***

4. (a) (i) Define Money multiplier? What is the nature of relationship between money multiplier and money supply?

(ii) How do changes in Statutory Liquidity Ratio impact the economy?

(3 + 2 Marks)

(b) (i) What's meant by Foreign Portfolio investment?

(ii) Explain the Real Exchange Rate. ***(3 + 2 Marks)***

5. (a) Enumerate six important effects of depreciation in exchange rate on domestic economy?

(5 Marks)

(b) (i) Account for cash reserve ratio as a monetary policy instrument

(ii) Explain how higher of interest rate affect the demand for money. ***(3+2 Marks)***