**Test Series: September, 2022**

# 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 capital structure of a Company is given below:

| Source of capital | Book Value (₹) |
|---|---|
| Equity shares @ ₹ 100 each | 24,00,000 |
| 9% Cumulative preference shares @ ₹ 100 each | 4,00,000 |
| 11% Debentures | 12,00,000 |
| | 40,00,000 |

The company had paid equity dividend @ 25% for the last year which is likely to grow @ 5% every year. The current market price of the company's equity share is ₹ 200.

Considering corporate tax @ 30%, you are required to CALCULATE:

(i) Cost of capital for each source of capital.

(ii) Weighted average cost of capital.

(b) Following information is provided relating to SVB Ltd.:

| | |
|---|---|
| Sales price | ₹ 21 per unit |
| Variable cost | ₹ 13.50 per unit |
| Break-even point | 30,000 units |

You are required to CALCULATE operating leverage at sales volume 37,500 units and 45,000 units.

(c) PI Limited has the following Balance Sheet as on March 31, 2020 and March 31, 2021:

**Balance Sheet**

| Particulars | March 31, 2020 | March 31, 2021 |
|---|---|---|
| Sources of Funds: | | |
| Shareholders' Funds | 87,500 | 87,500 |
| Loan Funds | 1,22,500 | 1,05,000 |
| | 2,10,000 | 1,92,500 |

| | | |
|---|---|---|
| Applications of Funds: | | |
| Fixed Assets | 87,500 | 1,05,000 |
| Cash and bank | 15,750 | 14,000 |
| Receivables | 49,000 | 38,500 |
| Inventories | 87,500 | 70,000 |
| Other Current Assets | 35,000 | 35,000 |
| Less: Current Liabilities | (64,750) | (70,000) |
| | 2,10,000 | 1,92,500 |

The Income Statement of the PI Ltd. for the year ended is as follows:

| Particulars | March 31, 2020 | March 31, 2021 |
|---|---|---|
| Sales | 7,87,500 | 8,33,000 |
| Less: Cost of Goods sold | (7,30,100) | (7,38,500) |
| Gross Profit | 57,400 | 94,500 |
| Less: Selling, General and Administrative expenses | (38,500) | (61,250) |
| Earnings before Interest and Tax (EBIT) | 18,900 | 33,250 |
| Less: Interest Expense | (12,250) | (10,500) |
| Earnings before Tax (EBT) | 6,650 | 22,750 |
| Less: Tax | (1,995) | (6,825) |
| Profits after Tax (PAT) | 4,655 | 15,925 |

You are required to CALCULATE for the year 2020-21:

(i) Inventory turnover ratio

(ii) Financial Leverage

(iii) Return on Capital Employed (after tax)

(d) Following information is given for WN Ltd.:

| | |
|---|---|
| Earnings | ₹ 30 per share |
| Dividend | ₹ 9 per share |
| Cost of capital | 15% |
| Internal Rate of Return on investment | 20% |

You are required to CALCULATE the market price per share using-

(i) Gordon's formula

(ii) Walter's formula **[4 × 5 Marks = 20 Marks]**

2. Embros Ltd. is planning to invest in a new product with a project life of 8 years. Initial equipment cost will be ₹ 35 crores. Additional equipment costing ₹ 2.50 crores will be purchased at the end of the third year from the cash inflow of this year. At the end of 8$^{th}$ year, the original equipment will have no resale value, but additional equipment can be sold at 10% of its original cost. A working capital of ₹ 4 crores will be needed, and it will be released at the end of 8$^{th}$ year. The project will be financed with sufficient amount of equity capital.

The sales volumes over eight years have been estimated as follows:

| | | | | | |
|---|---|---|---|---|---|
| Year | 1 | 2 | 3 | 4–5 | 6–8 |
| Units | 14,40,000 | 21,60,000 | 52,00,000 | 54,00,000 | 36,00,000 |

Sales price of ₹ 120 per unit is expected and variable expenses will amount to 60% of sales revenue. Fixed cash operating costs will amount ₹ 3.60 crores per year. The loss of any year will be set off from the profits of subsequent year. The company follows straight line method of depreciation and is subject to 30% tax rate. Considering 12% after-tax cost of capital for this project, you are required to CALCULATE the net present value (NPV) of the project and advise the management to take appropriate decision.

PV factors @ 12% are:

| Year | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
|---|---|---|---|---|---|---|---|---|
| | .893 | .797 | .712 | .636 | .567 | .507 | .452 | .404 |

**[10 Marks]**

3. GT Ltd. is taking into account the revision of its credit policy with a view to increasing its sales and profit. Currently, all its sales are on one month credit. Other information is as follows:

| | |
|---|---|
| Contribution | 2/5th of Sales Revenue |
| Additional funds raising cost | 20% per annum |

The marketing manager of the company has given the following options along with estimates for considerations:

| **Particulars** | **Current Position** | **Option I** | **Option II** | **Option III** |
|---|---|---|---|---|
| Sales Revenue (₹) | 40,00,000 | 42,00,000 | 44,00,000 | 50,00,000 |
| Credit period (in months) | 1 | 1½ | 2 | 3 |
| Bad debts (% of sales) | 2 | 2½ | 3 | 5 |
| Cost of Credit administration (₹) | 24,000 | 26,000 | 30,000 | 60,000 |

You are required to ADVISE the company for the best option. **[10 Marks]**

4. A Ltd. is considering investing in new project with the following details:

| | |
|---|---|
| Initial capital cost | ₹ 100 Crores |
| Annual unit sales | 1.25 Crores |
| Selling price | ₹ 100 per unit |
| Variable cost | ₹ 50 per unit |
| Fixed cost | ₹ 12.50 Crores per year |
| Discounting Rate | 6% |

Considering life of the project as 3 years, you are required to:

(a) CALCULATE the NPV of the project.

(b) COMPUTE the impact on the project's NPV considering a 5% adverse variance in following variables:

(i) Selling Price per Unit

(ii) Variable Cost Per Unit

(iii) Fixed Cost Per Unit

WHICH variable is having maximum effect?

(c) MEASURE the maximum sensitivity of the project to change in the variable (as found in part (b) above) such that NPV becomes zero.

PV factors @ 6% are:

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| PV Factor | 0.943 | 0.890 | 0.840 | 0.792 | 0.747 |

**[10 Marks]**

5. (a) Leo Ltd. has a net operating income of ₹ 21,60,000 and the total capitalisation of ₹ 120 lakhs. The company is evaluating the options to introduce debt financing in the capital structure and the following information is available at various levels of debt value.

| Debt value (₹) | Interest rate (%) | Equity Capitalisation rate (%) |
|---|---|---|
| 0 | N.A. | 12.00 |
| 10,00,000 | 7.00 | 12.50 |
| 20,00,000 | 7.00 | 13.00 |
| 30,00,000 | 7.50 | 13.50 |
| 40,00,000 | 7.50 | 14.00 |
| 50,00,000 | 8.00 | 15.00 |
| 60,00,000 | 8.50 | 16.00 |
| 70,00,000 | 9.00 | 17.00 |
| 80,00,000 | 10.00 | 20.00 |

You are required to COMPUTE the equity capitalization rate if MM approach is followed. Assume that the firm operates in zero tax regime and calculations to be based on book values. **[8 Marks]**

(b) BRIEF OUT the remedies for Over-Capitalisation. **[2 Marks]**

6. (a) A finance executive of an organisation plays an important role in the company's goals, policies, and financial success. WHAT his responsibilities include? **[4 Marks]**

(b) WHAT is the meaning of Venture Capital Financing. STATE some characteristics of it. **[4 Marks]**

(c) BRIEF OUT certain sources of finance- Inter Corporate Deposits and Certificate of Deposit.

Or

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

## PAPER 8B: ECONOMICS FOR FINANCE

***Question 1 is compulsory***

***Students can answer 3 out of the 4 remaining***

**Maximum Marks – 40**

1. (a) How the measurement of national Income in India is done? **(2 Marks)**

   (b) What is the distinction between classical and Keynesian theory in the determination of national income? **(3 Marks)**

   (c) Calculate the National Income with the help of Income Method and Expenditure Method? **(5 Marks)**

| Item | ₹ in crores |
|---|---|
| Net-factor income from abroad | 50 |
| Compensation of employees | 1000 |
| Net Indirect taxes | 150 |
| Rent | 500 |
| Profit | 700 |
| Private final consumption expenditure | 1500 |
| Net domestic capital formation | 600 |
| Depreciation | 200 |
| Interest | 500 |
| Mixed Income of self employed | 900 |
| Export | 90 |
| Import | 60 |
| Government final Consumption expenditure | 1200 |
| Operating surplus | 1700 |
| Employer's Contribution to social security Scheme | 250 |

2. (a) What do you understand by Gross Investment? **(2 Marks)**

   (b) Elaborate the Concept of deflationary gap and how this impact the economy? **(3 Marks)**

   (c) Calculate M3 from the following data: **(3 Marks)**

| Components | ₹ in Crore |
|---|---|
| Currency with the Public | 15,000 |
| Demand Deposit with Banks | 12,000 |
| Time Deposit with Banks | 10,000 |
| Other Deposit with Reserve bank | 70,000 |

   (d) Efficiency of market is affected by monopoly power: Comment. **(2 Marks)**

3. (a) What are the different motive for holding cash according to Keynes? **(2 Marks)**

   (b) What is escalated tariff structure? **(2 Marks)**

   (c) What is the relationship between money multiplier and money supply? **(3 Marks)**

(d) Describe the various interventionist measures adopted by the government? **(3 Marks)**

4. (a) How do changes in Statutory liquidity ratio impact the economy? **(2 Marks)**

(b) What is meant by Foreign Portfolio Investment? **(2 Marks)**

(c) What is the market Outcome of Price Ceiling? **(3 Marks)**

(d) What is Pump Priming? **(3 Marks)**

5. (a) Define Public good. Why do you consider national defence as a Public good? **(3 Marks)**

(b) What role does market Stabilization Scheme (MSS) Play in our Economy? **(3 Marks)**

(c) What is the distinction between Nominal GDP and Real GDP? **(2 Marks)**

(d) For an Economy $C = 40 + 0.75Y_{d,}$

$I = 60$

$G= 75$

Transfer Payment = 100

Income Tax = 0.2 y

Calculate the equilibrium of Income **(2 Marks)**

Or

What is trading Block?