Test Series: October, 2019

MOCK TEST PAPER 1

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.

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

1. Answer the following:

(a) The following figures are collected from the annual report of XYZ Ltd.:

Net Profit	Rs.60 lakhs
Outstanding 10% preference shares	Rs.100 lakhs
No. of equity shares	5 lakhs
Return on Investment	20%
Cost of capital i.e. (K_e)	14%

CALCULATE price per share using Gordon's Model when dividend pay-out is (i) 25%; (ii) 50% and (iii) 100%.

(b) RPS Company presently has Rs. 36,00,000 in debt outstanding bearing an interest rate of 10 per cent. It wishes to finance a Rs. 40,00,000 expansion programme and is considering three alternatives: additional debt at 12 per cent interest, preferred stock with an 11 per cent dividend, and the sale of common stock at Rs. 16 per share. The company presently has 8,00,000 shares of common stock outstanding and is in a 40 per cent tax bracket.

(i) If earnings before interest and taxes are presently Rs. 15,00,000, CALCULATE earnings per share for the three alternatives, assuming no immediate increase in profitability?

(ii) CALCULATE indifference point between debt and common stock.

(c) MNP Limited has made plans for the year 2019 -20. It is estimated that the company will employ total assets of Rs.50,00,000; 30% of assets being financed by debt at an interest cost of 9% p.a. The direct costs for the year are estimated at Rs. 30,00,000 and all other operating expenses are estimated at Rs. 4,80,000. The sales revenue are estimated at Rs. 45,00,000. Tax rate is assumed to be 40%. CALCULATE:

(i) Net profit margin (After tax);

(ii) Return on Assets (After tax);

(iii) Asset turnover; and

(iv) Return on Equity.

(d) A Ltd. and B Ltd. are identical in every respect except capital structure. A Ltd. does not employ debts in its capital structure whereas B Ltd. employs 12% Debentures amounting to Rs.100 lakhs. Assuming that :

(i) All assumptions of M-M model are met;

(ii) Income-tax rate is 30%;

(iii) EBIT is Rs. 25,00,000 and

(iv) The Equity capitalization rate of 'A' Ltd. is 20%.

CALCULATE the value of both the companies and also find out the Weighted Average Cost of Capital for both the companies. **[4 × 5 = 20 Marks]**

2. (a) B LLP. has the following balance sheet and Income statement information:

Balance Sheet as on March 31st 2019

Liabilities	(Rs.)	Assets	(Rs.)
Partners' Capital	80,00,000	Net Fixed Assets	1,00,00,000
Term Loan	60,00,000	Inventories	45,00,000
Retained Earnings	35,00,000	Trade Receivables	40,50,000
Trade Payables	15,00,000	Cash & Bank	4,50,000
	1,90,00,000		1,90,00,000

Income Statement for the year ending March 31st 2019

	(Rs.)
Sales	34,00,000
Operating expenses (including Rs. 6,00,000 depreciation)	12,00,000
EBIT	22,00,000
Less: Interest	6,00,000
Earnings before tax	16,00,000
Less: Taxes	5,60,000
Net Earnings (EAT)	10,40,000

COMPUTE the degree of operating, financial and combined leverages at the current sales level, if all operating expenses, other than depreciation, are variable costs. **[3 Marks]**

(b) H Ltd. is considering a new product line to supplement its range of products. It is anticipated that the new product line will involve cash investments of Rs.70,00,000 at time 0 and Rs.1,00,00,000 in year 1. After-tax cash inflows of Rs. 25,00,000 are expected in year 2, Rs.30,00,000 in year 3, Rs.35,00,000 in year 4 and Rs.40,00,000 each year thereafter through year 10. Although the product line might be viable after year 10, the company prefers to be conservative and end all calculations at that time.

(i) If the required rate of return is 15 per cent, FIND OUT the net present value of the project? Is it acceptable?

(ii) COMPUTE NPV if the required rate of return were 10 per cent?

(iii) COMPUTE the internal rate of return? **[7 Marks]**

3. You are given the following information:

(i) Estimated monthly Sales are as follows:

	Rs.		Rs.
January	1,00,000	June	80,000
February	1,20,000	July	1,00,000

March	1,40,000	August	80,000
April	80,000	September	60,000
May	60,000	October	1,00,000

(ii) Wages and Salaries are estimated to be payable as follows:

	Rs.		Rs.
April	9,000	July	10,000
May	8,000	August	9,000
June	10,000	September	9,000

(iii) Of the sales, 80% is on credit and 20% for cash. 75% of the credit sales are collected within one month and the balance in two months. There are no bad debt losses.

(iv) Purchases amount to 80% of sales and are made and paid for in the month preceding the sales.

(v) The firm has taken a loan of Rs.1,20,000. Interest @ 10% p.a. has to be paid quarterly in January, April and so on.

(vi) The firm is to make payment of tax of Rs. 5,000 in July, 2019.

(vii) The firm had a cash balance of Rs. 20,000 on 1st April, 2019 which is the minimum desired level of cash balance. Any cash surplus/deficit above/below this level is made up by temporary investments/liquidation of temporary investments or temporary borrowings at the end of each month (interest on these to be ignored).

Required

PREPARE monthly cash budgets for six months beginning from April, 2019 on the basis of the above information. **[10 Marks]**

4. ABC Ltd. has the following capital structure which is considered to be optimum as on 31st March, 2019

	(Rs.)
14% Debentures	30,00,000
11% Preference shares	10,00,000
Equity Shares (10,000 shares)	1,60,00,000
	2,00,00,000

The company share has a market price of Rs. 236. Next year dividend per share is 50% of year 2019 EPS. The following is the trend of EPS for the preceding 10 years which is expected to continue in future.

Year	**EPS (Rs.)**	**Year**	**EPS Rs.)**
2010	10.00	2015	16.10
2011	11.00	2016	17.70
2012	12.10	2017	19.50
2013	13.30	2018	21.50
2014	14.60	2019	23.60

The company issued new debentures carrying 16% rate of interest and the current market price of debenture is Rs. 96.

Preference share Rs. 9.20 (with annual dividend of Rs. 1.1 per share) were also issued. The company is in 50% tax bracket.

(A) CALCULATE after tax:

(i) Cost of new debt

(ii) Cost of new preference shares

(iii) New equity share (consuming new equity from retained earnings)

(B) CALCULATE marginal cost of capital when no new shares are issued.

(C) COMPUTE the amount that can be spent for capital investment before new ordinary shares must be sold. Assuming that retained earnings for next year's investment are 50 percent of 2019.

(D) COMPUTE marginal cost of capital when the funds exceeds the amount calculated in (C), assuming new equity is issued at Rs. 200 per share? **[10 Marks]**

5. (a) CALCULATE Variance and Standard Deviation on the basis of following information:

Possible Event	Project A		Project B	
	Cash Flow (Rs.)	Probability	Cash Flow (Rs.)	Probability
A	80,000	0.10	2,40,000	0.10
B	1,00,000	0.20	2,00,000	0.15
C	1,20,000	0.40	1,60,000	0.50
D	1,40,000	0.20	1,20,000	0.15
E	1,60,000	0.10	80,000	0.10

[8 Marks]

(b) A firm maintains a separate account for cash disbursement. Total disbursement are Rs.10,50,000 per month or Rs. 1,26,00,000 per year. Administrative and transaction cost of transferring cash to disbursement account is Rs.20 per transfer. Marketable securities yield is 8% per annum.

COMPUTE the optimum cash balance according to William J. Baumol model. **[2 Marks]**

6. (a) DISCUSS the Inter relationship between investment, financing and dividend decisions.

(b) What is debt securitisation? EXPLAIN the basics of debt securitisation process.

(c) EXPLAIN the concept of discounted payback period. **(4 + 4+ 2 =10 Marks)**

PAPER – 8B: ECONOMICS FOR FINANCE

Time Allowed – 1:15 Hours **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 **7** 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.

7. (a) Calculate National Income by Value Added Method with the help of following data-

Particulars	Rs. (in crore)
Sales	700
Opening stock	500
Intermediate Consumption	350
Closing Stock	400
Net Factor Income from Abroad	30
Depreciation	150
Excise Tax	110
Subsidies	50

(3 Marks)

(b) Define Social Good? What is the similarity and dissimilarity between Social Goods and Common Pool Resources? **(2 Marks)**

(c) Why Marginal Standing Facility (MSF) would be the last resort for banks? **(3 Marks)**

(d) Assume that 15% specific tariff is levied by the government on every sunglass which is imported into India, and if 2000 sunglasses are imported and price of each sunglass is Rs.1000/- , then find out the amount of total tariff revenue collected by the government? **(2 Marks)**

8. (a) (i) Suppose M_3 = Rs. 450000 Crore

Currency with Public = Rs 3000 Crore

Demand Deposits of Banks = Rs. 100000 Crore

Other deposits with RBI= Rs. 100000 Crore

Saving Deposits with Post Office Saving Banks = Rs. 150000 Crore

Total deposits with the Post Office Savings Organization (excluding National Saving Certificate) = Rs. 20000 Crore

National Saving Certificate = Rs. 250 Crore

Calculate Net Time Deposits and M_4 with the banking system? **(3 Marks)**

(ii) Compare transaction demand for money according to Keynes and Baumol & Tobin?

(2 Marks)

(b) How does trade increase economic efficiency and which view argued that trade is a zero- sum game and how? **(3 Marks)**

(c) Is country like India unable to estimate their National Income wholly by one method? Give comments **(2 Marks)**

9. (a) How does the government intervene to minimize market power? **(5 Marks)**

(b) Define the deposit expansion multiplier? How it is calculated? **(3 Marks)**

(c) Suppose MPC is 0.8 and it is planned to increase National Income by Rs. 3000 Crore then how much increase in investment is required to fulfill this target? **(2 Marks)**

10. (a) What is meant by foreign exchange market? What are the roles played by the participants in the foreign exchange market? **(5 Marks)**

(b) Define 'Net Factor Income from Abroad' **(3 Marks)**

(c) Determine the government spending multiplier when there is an increase of Rs.100 crore in government spending and MPC is 0.75 ? And also find out the net effect of Rs. 100 crore spending?

(2 Marks)

11. (a) (i) What are the main advantages of fixed rate regime in an open economy? **(3 Marks)**

(ii) How the autonomous expenditure multiplier is stated in four sector model? **(2 Marks)**

(b) (i) What is non- discretionary fiscal policy and how it occurs? **(3 Marks)**

(ii) Explain the concept of demand for money?

(2 Marks)

Or

Define the term Regional Trade Agreement (RTAs)? **(2 Marks)**