

Test Series: April, 2021

**MOCK TEST PAPER – II**  
**INTERMEDIATE (NEW): GROUP – II**  
**PAPER – 8: FINANCIAL MANAGEMENT & ECONOMICS FOR FINANCE**  
**PAPER 8A: FINANCIAL 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) Kee Ltd. and Lee Ltd. are identical in every respect except for capital structure. Kee Ltd. does not employ debt in its capital structure, whereas Lee Ltd. employs 12% debentures amounting to Rs. 20 lakhs. Assuming that:

- (i) All assumptions of MM model are met;
- (ii) The income tax rate is 30%;
- (iii) EBIT is Rs. 5,00,000 and
- (iv) The equity capitalization rate of Kee Ltd. is 25%.

CALCULATE the average value of both the Companies.

- (b) The following data is available in respect of N Ltd. for the year ended 31<sup>st</sup> March, 2021:

	Rs. (in Crore)
Share capital (@ Rs. 10 per share)	25.00
Reserves	15.00
Profit after tax (PAT)	3.70
Dividends paid	3.00
P/E ratio	26.70

Using Walter's Model:

- (i) COMMENT on the firm's dividend policy;
  - (ii) DETERMINE the optimum payout ratio and
  - (iii) DETERMINE the P/E ratio at which dividend payout will have no effect on share price.
- (c) XYZ Ltd. has Owner's equity of Rs. 2,00,000 and the ratios of the company are as follows:

Current debt to total debt	0.3
Total debt to Owner's equity	0.5
Fixed assets to Owner's equity	0.6

Total assets turnover	2 times
Inventory turnover	10 times

COMPLETE the following Balance Sheet from the information given above:

Liabilities	(Rs.)	Assets	(Rs.)
Current Debt	-	Cash	-
Long-term Debt	-	Inventory	-
Total Debt	-	Total Current Assets	-
Owner's Equity	-	Fixed Assets	-

- (d) In March, 2021 Tiruv Ltd.'s share was sold for Rs. 219 per share. A long term earnings growth rate of 11.25% is anticipated. Tiruv Ltd. is expected to pay dividend of Rs. 5.04 per share.
- (i) DETERMINE the rate of return an investor can expect to earn assuming that dividends are expected to grow along with earnings at 11.25% per year in perpetuity?
- (ii) It is expected that Tiruv Ltd. will earn about 15% on book equity and shall retain 60% of earnings. In this case, whether, there would be any change in growth rate and cost of equity? ANALYSE. **(4 × 5 = 20 Marks)**
2. (a) SG Ltd. is considering a project "Z" with an initial outlay of Rs. 7,50,000 and life of 5 years. The estimates of project are as follows:

	Lower Estimates	Base	Upper Estimates
Sales (units)	4,500	5,000	5,500
	(Rs.)	(Rs.)	(Rs.)
Selling Price p.u.	175	200	225
Variable cost p.u.	100	125	150
Fixed Cost	50,000	75,000	1,00,000

Depreciation included in Fixed cost is Rs. 35,000 and corporate tax is 25%.

Assuming the cost of capital as 15%, DETERMINE NPV in three scenarios i.e worst, base and best case scenario.

PV factor for 5 years at 15% are as follows:

Years	1	2	3	4	5
P.V. factor	0.870	0.756	0.658	0.572	0.497

**(7 Marks)**

- (b) Development Finance Corporation issued zero interest deep discount bonds of face value of Rs. 1,50,000 each issued at Rs. 3,750 & repayable after 25 years. COMPUTE the cost of debt if there is no corporate tax. **(3 Marks)**
3. WQ Limited is considering relaxing its present credit policy and is in the process of evaluating two proposed policies. Currently, the firm has annual credit sales of Rs. 180 lakh and Debtors turnover ratio of 4 times a year. The current level of loss due to bad debts is Rs. 6 lakh. The firm is required to give a return of 25% on the investment in new accounts receivables. The company's variable costs are 60% of the selling price. Given the following information, DETERMINE which is a better Policy?

(Amount in lakhs)

	Present Policy	Proposed Policy	
		Option I	Option II
Annual credit sales (Rs.)	180	220	280
Debtors turnover ratio	4	3.2	2.4
Bad debt losses (Rs.)	6	18	38

(10 Marks)

4. City Clap Ltd. is in the business of providing housekeeping services. There is a proposal before the company to purchase a mechanized cleaning system for a sum of Rs. 40 lakhs. The present system of the company is to use manual labour for the cleaning job. You are provided with the following information:

Proposed Mechanized System:

Cost of the machine	Rs. 40 lakhs
Life of the machine	7 years
Depreciation (on straight line basis)	15%
Operating cost of mechanized system	Rs. 20 lakhs per annum

Present system (Manual):

Manual labour	350 persons
Cost of manual labour	Rs. 15,000 per person per annum

The company has an after-tax cost of fund at 10% per annum.

The applicable tax rate is 50%.

PV factor for 7 years at 10% are as follows:

Years	1	2	3	4	5	6	7
P.V. factor	0.909	0.826	0.751	0.683	0.621	0.564	0.513

You are required to DETERMINE whether it is advisable to purchase the mechanized cleaning system. Give your recommendations with workings. (10 Marks)

5. Following data of MT Ltd. under Situations 1, 2 and 3 and Financial Plan A and B is given:

Installed Capacity (units)	3,600
Actual Production and Sales (units)	2,400
Selling price per unit (Rs.)	30
Variable cost per unit (Rs.)	20
Fixed Costs (Rs.): Situation 1	3,000
Situation 2	6,000
Situation 3	9,000

Capital Structure :

Particulars	Financial Plan	
	A	B
Equity	Rs. 15,000	Rs. 22,500
Debt	Rs. 15,000	Rs. 7,500
Cost of Debt	12%	12%

Required:

- (i) CALCULATE the operating leverage and financial leverage.
  - (ii) FIND out the combinations of operating and financial leverage which give the highest value and the least value. **(10 Marks)**
6. (a) EXPLAIN in brief the features of Commercial Paper.
- (b) DESCRIBE how agency problem can be addressed.
- (c) DEFINE Debt Securitisation.

Or

EXPLAIN the principles of "Trading on equity".

**(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.*

**QUESTIONS**

7. (a) What are the Challenges in Computation of National Income in India? **(2 Marks)**

(b) Calculate National Income by Expenditure Method and Income Method with the help of the following data:

Items	Rs. In Crores	
(i) Compensation of Employees	2000	
(ii) Mixed Income of Self Employed	1000	
(iii) Net Factor Income of Abroad	50	
(iv) GST	100	
(v) Subsidies	60	
(vi) Private Final Consumption Expenditure	700	
(vii) Government Final Consumption Expenditure	800	
(viii) Export	200	
(ix) Import	120	
(x) Net Domestic Capital Formation	500	
(xi) Profit	400	
(xii) Interest	300	
(xiii) Rent	600	
(xiv) Depreciation	200	<b>(5 Marks)</b>

(c) How does Free Rider Problems causes market failure? **(3 Marks)**

8. (a) Calculate Personal Disposable Income from the following data:

Items	Rs. In crores
(i) $NNP_{fc}$	5000
(ii) Undistributed Profit	200
(iii) Net interest payments made by households	400
(iv) Corporate Tax	600
(v) Transfer Payments to the households from firms and government	500

- (vi) Personal Income Taxes 1200
- (vii) Non tax Payments 800 **(3 Marks)**
- (b) How does government subsidies help in balancing the role as allocative function? **(2 Marks)**
- (c) What is Speculative demand for Money. Explain with the help of a diagram? **(3 Marks)**
- (d) Define Balanced budget and the process for calculating the same? **(2 Marks)**
9. (a) How does Government Intervention helps in correcting externalities? **(3 Marks)**
- (b) Fiscal Policy can be used as a tool for redistribution and economic growth: Comment. **(2 Marks)**
- (c) What are the major differences between Foreign Direct Investment and Foreign Portfolio Investment? **(3 Marks)**
- (d) How is New Trade Policy (NTT) beneficial for development of Foreign Trade? **(2 Marks)**
10. (a) Calculate M3 from the Following data?
- | Items                                    | Rs in crores |
|--|--------------|
| Currency Notes and Coins with the people | 5000         |
| Demand Deposit with the banking system   | 4000         |
| Other Deposits with the RBI              | 3000         |
| Time Deposit with banking system         | 1000         |
| Saving Deposit with Post office          | 500          |
- (3 Marks)**
- (b) Why is The Quantity Theory of Money Important? **(2 Marks)**
- (c) What is crowding out effect and how did it impact fiscal Policy? **(3 Marks)**
- (d) What are the important barriers in International Trade ? How does its resolution help in development of international Trade? **(2 Marks)**
11. (a) Explain the three Sector Model of determination of National Income? **(3 Marks)**
- (b) Why is the role of government important in solving the free rider problem? **(2 Marks)**
- (c) What are the mechanism through which monetary policy work? **(3 Marks)**
- (d) Under Floating Rate Regime how exchange rate is determined? **(2 Marks)**