Test Series: October, 2023

MOCK TEST PAPER - 2

INTERMEDIATE: 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) The capital structure of AB Ltd. for the year ended 31st March, 2023 consisted as follows:

Particulars	**Amount in ₹**
Equity share capital (face value ₹ 100 each)	20,00,000
10% debentures (₹ 100 each)	10,00,000

During the year 2022-23, sales decreased to 2,00,000 units as compared to 2,20,000 units in the previous year. However, the selling price stood at ₹ 10 per unit and variable cost at ₹ 6 per unit for both the years. The fixed expenses were at ₹ 4,00,000 p.a. and the income tax rate is 30%.

You are required to CALCULATE the following:

(i) The degree of financial leverage at 2,20,000 units and 2,00,000 units.

(ii) The degree of operating leverage at 2,20,000 units and 2,00,000 units.

(iii) The percentage change in EPS.

(b) PQR Ltd. is a blue-chip company listed in NSE in India with a face value of ₹ 100 per share. The company is expected to grow @ 15% p.a. for next four years then 5% for an indefinite period. The shareholders expect 20% return on their share investments. Company paid ₹ 150 as dividend per share for the current Financial Year. The shares of the company traded at an average price of ₹ 2,052 on last day. FIND out the intrinsic value per share and state whether shares are overpriced or underpriced.

(c) A company proposes to install a machine involving a Capital Cost of ₹72,00,000. The life of the machine is 5 years and its salvage value at the end of the life is nil. The machine will produce the net operating income after depreciation of ₹13,60,000 per annum. The Company's tax rate is 35%.

The Net Present Value factors for 5 years are as under:

Discounting Rate	:	14	15	16	17	18	19
Cumulative factor	:	3.43	3.35	3.27	3.20	3.13	3.06

You are required to COMPUTE the internal rate of return (IRR) of the proposal.

(d) ABC Ltd. has total sales of 12,00,000 all of which are credit sales. It has a gross profit ratio of 20% on sales and a current ratio of 2. The company's current liabilities are ₹ 3,00,000. Further, it has inventories of ₹ 1,00,000, marketable securities of ₹ 70,000 and cash of ₹ 50,000. From the above information:

(i) CALCULATE the average inventory if the expected inventory turnover ratio is three times?

(ii) Also CALCULATE the average collection period if the opening balance of debtors is expected to be ₹ 1,20,000.

Assume 360 days a year. **[4 × 5 Marks = 20 Marks]**

2. A Company earns a profit of ₹7,00,000 per annum after meeting its interest liability of ₹1,00,000 on 10% debentures. The Tax rate is 40%. The number of Equity Shares of ₹10 each are 1,00,000 and the retained earnings amount to ₹20,00,000. The company proposes to take up an expansion scheme for which a sum of ₹10,00,000 is required. It is anticipated that after expansion, the company will be able to achieve the same return on investment as at present. The funds required for expansion can be raised either through debt at the rate of 12% or by issuing equity shares at par.

Required:

(i) COMPUTE the Earnings per Share (EPS), if:

➢ The additional funds were raised as debt

➢ The additional funds were raised by issue of equity shares.

(ii) ADVISE the company as to which source of finance is preferable. **[10 Marks]**

3. Q Ltd. has the following capital structure at book-value as on 31st March 2022:

Particulars	**(₹)**
Equity share capital (10,00,000 shares)	4,00,00,000
12% Preference shares	80,00,000
11% Debentures	2,00,00,000
	6,80,00,000

The equity shares of the company are sold for ₹ 400. It is expected that the company will pay next year a dividend of ₹ 20 per equity share, which is expected to grow by 5% p.a. forever. Assume a 30% corporate tax rate.

Required:

(i) COMPUTE weighted average cost of capital (WACC) of the company based on the existing capital structure.

(ii) COMPUTE the new WACC, if the company raises an additional ₹ 50 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to ₹ 25 and leave the growth rate unchanged, but the price of equity share will fall to ₹ 300 per share. **[10 Marks]**

4. A&R Ltd. has undertaken a project which has an initial investment of ₹2,000 lakhs in plant & machinery and ₹ 600 lakhs for working capital. The plant & machinery would have a salvage value of ₹ 525 lakhs at the end of the fifth year. The plant & machinery would depreciate at the rate of 20% p.a. on the WDV method. The other details of the project for the five-year period are as follows:

Sales	10,00,000 units p.a.
Selling price per unit	₹500
Variable cost	50% of selling price
Fixed overheads (excluding depreciation)	₹400 lakh p.a.

Corporate tax rate	30%
Rate of interest on bank loan	12%
After tax required rate of return	15%

Required:

(i) CALCULATE net present value (NPV) of the project and DETERMINE the viability of the project.

(ii) DETERMINE the sensitivity of project's NPV under each of the following condition:

a. Decrease in selling price by 10%.

b. Increase in cost of plant & machinery by 10%.

PV factor	Year-1	Year-2	Year-3	Year-4	Year-5
12%	0.892	0.797	0.711	0.635	0.567
15%	0.869	0.756	0.657	0.571	0.497

[10 Marks]

5. (a) Cost sheet of X&Y Ltd. provides the following particulars:

	Amount per unit (₹)
Raw materials cost	260.00
Direct labour cost	125.00
Overheads cost	200.00
Total cost	585.00
Profit	75.00
Selling Price	660.00

The Company keeps raw material in stock, on an average for four weeks; work-in-progress, on an average for one week; and finished goods in stock, on an average for two weeks.

The credit allowed by suppliers is three weeks and company allow four weeks credit to its debtors. The lag in payment of wages is one week and lag in payment of overhead expenses is two weeks.

The Company sells one-fifth of the output against cash and maintains cash-in-hand and at bank put together at ₹ 2,70,000.

Required:

PREPARE a statement showing estimate of Working Capital needed to finance an activity level of 2,40,000 units of production. Assume that production is carried on evenly throughout the year, and wages and overheads accrue similarly. Work-in-progress stock is 75% complete in all respects.

[8 Marks]

(b) The following information is provided by the Shrishti Ltd. for the year ending 31st March 2022.

Raw Material storage period	54 days
Work in progress conversion period	20 days
Finished Goods storage period	22 days
Debt Collection period	74 days
Creditors' payment period	25 days

Annual Operating Cost	45 crore
(Including depreciation of ₹42,00,000)	

(1 year = 360 days)

You are required to CALCULATE Operating Cycle period and Number of Operating Cycles in a year. **[2 Marks]**

6. (a) DESCRIBE the different types of packing credit. **[4 Marks]**

(b) EXPLAIN the concept of risk adjusted discount rate. **[4 Marks]**

(c) Write a short note on role of finance controller.

Or

DISCUSS the dividend-price approach to estimate cost of equity capital. **[2 Marks]**

PAPER 8B: ECONOMICS FOR FINANCE

Question 1 is compulsory

Students can answer 3 out of the 4 remaining

1. (a) What is the system of regional accounts in India? **(3 Marks)**

   (b) Why does the different method of measuring national income give the same result? **(2 Marks)**

   (c) Compute the subsidies from the following data? **(5 Marks)**

	₹ in crore
GDP at Market Price	779567
Indirect Taxes	454367
GDP at Factor Cost	360815

2. (a) Explain the limitation of GDP as a measure of welfare? **(2 Marks)**

   (b) What could be the outcome of Free Rider Problem associated with Public Good? **(3 Marks)**

   (c) Suppose you are given following information:

   Consumption Function: C = 10+0.8Yd

   Tax T = 50

   Investment Spending, I = 135

   Government Spending G = 60

   Exports X= 35

   Imports = M = 0.05Y

   Where Y and Yd are Income and Personal Disposable Income respectively. **(5 Marks)**

3. (a) Elaborate on the concept of Pump Priming? **(3 Marks)**

   (b) What will be the explicit objective of monetary policy for developing countries? **(2 Marks)**

   (c) What is the different motive for holding cash according to Keynes ? **(2 Marks)**

   (d) Why should the Government perform the allocation function in an economy? **(3 Marks)**

4. (a) Explain the concept of Common Access Resources? **(3 Marks)**

   (b) In our economy what role does Market Stabilisation Scheme (MSS) play? **(2 Marks)**

   (c) What is the potential problem of Foreign Direct Investment? **(2 Marks)**

   (d) Find out the MPC, when in an economy total income increases by ₹ 7500 crore due to increase in investment by ₹ 2500 crore? **(3 Marks)**

5. (a) What is Factor Price–Equalization Theorem of International Trade? **(2 Marks)**

   (b) What is the relevance of Monetary Policy Committee and its impact? **(3 Marks)**

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

   (d) How do changes in statutory liquidity ratio impact the economy? **(3 Marks)**

   OR

   What is government failure?