(CA INTERMEDIATE MOCK TEST MAY 2021)

DATE: 30.03.2021 **MAXIMUM MARKS: 100** **TIMING: 3¼ Hours**

FINANCIAL MANAGEMENT

SECTION – A

Q. No. 1 is compulsory.
Candidates are also required to answer any four questions from the remaining five questions.
In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of questions top answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.
Working Notes should form part of the respective answer.

Question: 1

(a) A firm's details are as under:

Sales (@100 per unit)	Rs. 24,00,000
Variable Cost	50%
Fixed Cost	Rs. 10,00,000

It has borrowed Rs. 10,00,000 @ 10% p.a. and its equity share capital is Rs. 10,00,000 (Rs. 100 each) Calculate:

(i) Operating Leverage
(ii) Financial Leverage
(iii) Combined Leverage
(iv) Return on Investment
(v) If the sales increases by Rs. 6,00,000; what will the new EBIT?

(5 Marks)

(b) The capital structure of Beta Limited is as follows:

Equity share capital of Rs. 10 each	8,00,000
9% preference share capital of Rs. 10 each	3,00,000
	11,00,000

Additional information: Profit (after tax at 35 per cent), Rs. 2,70,000; Depreciation, Rs. 60,000; Equity dividend paid, 20 per cent; Market price of equity shares, Rs. 40. You are required to compute the following, showing the necessary workings:

(i) Dividend yield on the equity shares
(ii) Cover for the preference and equity dividends
(iii) Earnings per shares
(iv) Price-earnings ratio.

(5 Marks)

(c) There are two company N Ltd. and M Ltd., having same earnings before interest and taxes i.e. EBIT of Rs. 20,000. M Ltd. is a levered company having a debt of Rs. 1,00,000 @ 7% rate of interest. The cost of equity of N Ltd. is 10% and of M Ltd. is 11.50%.
Find out how arbitrage process will be carried on?

(5 Marks)

(d) Ganesha Limited is setting up a project with a capital outlay of Rs. 60,00,000. It has two alternatives in financing the project cost.
Alternative-I : 100% equity finance by issuing equity shares of Rs. 10 each
Alternative-II : Debt-equity ratio 2:1 (issuing equity shares of Rs. 10 each)

The rate of interest payable on the debts is 18% p.a. The corporate tax rate is 40%. Calculate the indifference point between the two alternative methods of financing.

(5 Marks)

Question: 2

(a) The following information is available in respect of Sai Trading company:

(i) On an average, debtors are collected after 45 days; inventories have an average holding period of 75 days and creditor's payment period on an average is 30 days.

(ii) The firm spends a total of Rs. 120 lakhs annually at a constant rate.

(iii) It can earn 10 per cent on investments.

From the above information, you are required to calculate:

(a) The cash cycle and cash turnover,

(b) Minimum amounts of cash to be maintained to meet payments as they become due,

(c) Savings by reducing the average inventory holding period by 30 days.

(5 Marks)

(b) The following information relates to Navya Ltd:

Earnings of the company	Rs. 20,00,000
Dividend pay-out ratio	60%
No. of Shares outstanding	4,00,000
Rate of return on investment	15%
Equity capitalization rate	12%

Required:

(i) DETERMINE what would be the market value per share as per Walter's model.

(ii) COMPUTE optimum dividend pay-out ratio according to Walter's model and the market value of company's share at that pay-out ratio.

(5 Marks)

Question: 3

ABC Ltd. has the following capital structure which is considered to be optimum as on 31st March, 2017.

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

The company share has a market price of Rs. 23.60. Next year dividend per share is 50% of year 2017 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.)**
2008	1.00	2013	1.61
2009	1.10	2014	1.77
2010	1.21	2015	1.95
2011	1.33	2016	2.15
2012	1.46	2017	2.36

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) How much 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 2017.

(D) What will the marginal cost of capital when the funds exceeds the amount calculated in (C), assuming new equity is issued at Rs. 20 per share?

(10 Marks)

Question: 4

PQ Ltd., a company newly commencing business in 2017 has the following projected Profit and Loss Account:

	(Rs.)	(Rs.)
Sales		2,10,000
Cost of goods sold		1,53,000
Gross Profit		57,000
Administrative Expenses	14,000	
Selling Expenses	13,000	27,000
Profit before tax		30,000
Provision for taxation		10,000
Profit after tax		20,000
The cost of goods sold has been arrived at as under:		
Materials used	84,000	
Wages and manufacturing Expenses	62,500	
Depreciation	23,500	
	1,70,000	
Less: Stock of Finished goods (10% of goods produced not yet sold)	17,000	
	1,53,000	

The figure given above relate only to finished goods and not to work-in-progress. Goods equal to 15% of the year's production (in terms of physical units) will be in process on the average requiring full materials but only 40% of the other expenses. The company believes in keeping materials equal to two months' consumption in stock.

All expenses will be paid one month in advance. Suppliers of materials will extend 1-1/2 months credit. Sales will be 20% for cash and the rest at two months' credit. 70% of the Income tax will be paid in advance in quarterly instalments. The company wishes to keep Rs. 8,000 in cash. 10% has to be added to the estimated figure for unforeseen contingencies.

Prepare an estimate of working capital.

Note: All workings should form part of the answer.

(10 Marks)

Question: 5

PR Engineering Ltd. is considering the purchase of a new machine which will carry out some operations which are at present performed by manual labour. The following information related to the two alternative models – 'MX' and 'MY' are available:

	Machine 'MX'	Machine 'MY'
Cost of Machine	Rs. 8,00,000	Rs. 10,20,000
Expected Life	6 years	6 years
Scrap Value	Rs. 20,000	Rs. 30,000

Estimated net income before depreciation and tax:

Year	Rs.	Rs.
1	2,50,000	2,70,000
2	2,30,000	3,60,000
3	1,80,000	3,80,000
4	2,00,000	2,80,000
5	1,80,000	2,60,000
6	1,60,000	1,85,000

Corporate tax rate for this company is 30 percent and company's required rate of return on investment proposals is 10 percent. Depreciation will be charged on straight line basis. You are required to:

(i) Calculate the pay-back period of each proposal.

(ii) Calculate the net present value of each proposal, if the P.V. factor at 10% is – 0.909, 0.826, 0.751, 0.683, 0.621 and 0.564.

(iii) Which proposal you would recommend and why

(10 Marks)

Question: 6 : Write Short Notes:

(a) Global depository Bonds (GDRs.)

(2½ Marks)

(b) Indian depository Bonds (IDRs)

(2½ Marks)

(c) Venture Capital Financing

(2½ Marks)

(d) Plain Vanilla Bonds

(2½ Marks)

ECONOMICS FOR FINANCE

SECTION – B

Q. No. 7 is compulsory.
Answer any three from the rest.
In case, any candidate answers extra question(s)/sub-question(s) over and above the required number, then only the requisite number of equestions first answered in the answer book shall be valued and subsequent extra question(s) answered shall be ignored.
Working Notes should form part of the respective answer.

Question 7:

(a) What role does Market Stabilization Scheme (MSS) play in our economy?

(3 Marks)

(b) What is local content requirement? How will it affect trade?

(3 Marks)

(c) Why GATT lost its relevance by 1980?

(2 Marks)

(d) Why do pensions and other security payments get excluded while calculating National Income?

(2 Marks)

Question 8:

(a) Compute NNP at factor cost or national income from the following data using income method:

	(Rs. in crores)
Compensation of employees	3,000
Mixed income of self-employed	1,050
Indirect taxes	480
Subsidies	630
Depreciation	428
Rent	1,020
Interest	2,010
Profit	980
Net factor income from abroad	370

(3 Marks)

(b) Compute credit multiplier if the Requited Reserve Ratio is 10% and 12.5% for every Rs. 1,00,000 deposited in the banking system. What will be the total credit money created by the banking system in each case?

(2 Marks)

(c) Explain the neo-classical approach to demand for money.

(3 Marks)

(d) What is 'Recessionary Gap'?

(2 Marks)

Question 9:

(a) Explain the circular flow of income in an economy.

(3 Marks)

(b) How does the WTO agreement ensure market access?

(2 Marks)

(c) How does a discretionary fiscal policy help in correcting instabilities in the economy?

(3 Marks)

(d) Explain 'Reverse Repo Rate'.

(2 Marks)

Question 10:

(a) Many apprehensions have been raised in respect of the WTO and its ability to maintain and extend a system of liberal world trade. Comment.

(3 Marks)

(b) Even if one nation is less efficient than the other nation in the production of all commodities, there is still scope for mutually beneficial trade. Explain in detail.

(3 Marks)

(c) How is exchange rate determined under floating exchange rate regime?

(2 Marks)

(d) What is meant by trade distortion?

(2 Marks)

Question 11:

(a) Compute the amount of subsidies from the following data:

GDP at market price (Rs. in crores)	7,79,567
Indirect Taxes (Rs. in crores)	4,54,367
GDP at factor cost (Rs. in crores)	3,60,815

(3 Marks)

(b) What do you mean by 'Global Public Goods'? Explain in brief.

(2 Marks)

(c) Describe the problems in administering an efficient pollution tax.

(3 Marks)

(d) Explain the open market operations conducted by RBI.

(2 Marks)

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