(CA INTERMEDIATE MOCK TEST MAY 2021)

DATE: 01.05.2021 **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) MN Limited gives you the following information related for the year ending 31st March, 2016:

(1)	Current Ratio	2.5 : 1
(2)	Debt-Equity Ratio	1 : 1.5
(3)	Return on Total Assets (After Tax)	15%
(4)	Total Assets Turnover Ratio	2
(5)	Gross Profit Ratio	20%
(6)	Stock Turnover Ratio	7
(7)	Current Market Price per Equity Share	Rs. 16
(8)	Net Working Capital	Rs. 4,50,000
(9)	Fixed Assets	Rs. 10,00,000
(10)	60,000 Equity Shares of	Rs. 10 each
(11)	20,000, 9% Preference Shares of	Rs. 10 each
(12)	Opening Stock	Rs. 3,80,000

You are required to calculate:
(i) Quick Ratio
(ii) Fixed Assets Turnover Ratio
(iii) Proprietary Ratio
(iv) Earnings per Share
(v) Price-Earning Ratio **(7 Marks)**

(b) The following details of RST Limited for the year ended 31st March, 2015 are given below:

Operating leverage	1.4
Combined leverage	2.8
Fixed Cost (Excluding interest)	Rs. 2.04 lakhs
Sales	Rs. 30.00 lakhs
12% Debentures of Rs. 100 each	Rs. 21.25 lakhs
Equity Share Capital of Rs. 10 each	Rs. 17.00 lakhs
Income tax rate	30 per cent

Required:
(i) Calculate Financial leverage
(ii) Calculate P/V ratio and Earning per Share (EPS)
(iii) If the company belongs to an industry, whose assets turnover is 1.5, does it have a high or low assets turnover?
(iv) At what level of sales the Earning before Tax (EBT) of the company will be equal to zero? **(8 Marks)**

(c) There are two firms P and Q which are identical except P does not use any debt in its capital structure while Q has Rs. 8,00,000, 9% debentures in its capital structure. Both the firms have earnings before interest and tax of Rs. 2,60,000 p.a. and the capitalization rate is 10%. Assuming the corporate tax of 30%, calculate the value of these firms according to MM Hypothesis.

(5 Marks)

Question 2:

JKL Ltd. has the following book-value capital structure as on March 31, 20X5.

	(Rs.)
Equity share capital (2,00,000 shares)	40,00,000
11.5% Preference shares	10,00,000
10% Debentures	30,00,000
	80,00,000

The equity shares of the company are sold for Rs. 20. It is expected that the company will pay next year a dividend of Rs. 2 per equity share, which is expected to grow by 5% p.a. forever. Assume a 35% 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 Rs. 20 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to Rs. 2.40 and leave the growth rate unchanged, but the price of equity share will fall to Rs. 16 per share.

(10 Marks)

Question 3:

The Management of a Company has two alternative proposals under consideration. Project A requires a capital outlay of Rs. 12,00,000 and project 'B" requires Rs. 18,00,000. Both are estimated to provide a cash flow for five years:

Project A Rs. 4,00,000 per year and Project B Rs. 5,80,000 per year. The cost of capital is 10%. Show which of the two projects is preferable from the view point of (i) Net present value method, (ii) Present value index method (PI method), (iii) Internal rate of return method.

The present values of Re. 1 of 10%, 18% and 20% to be received annually for 5 years being 3.791, 3.127 and 2.991 respectively.

(10 Marks)

Question 4:

(a) Shivam Ltd. is considering two mutually exclusive projects A and B. Project A costs Rs. 36,000 and project B Rs. 30,000. You have been given below the net present value probability distribution for each project.

Project A		**Project B**	
NPV estimates (Rs.)	**Probability**	**NPV estimates (Rs.)**	**Probability**
15,000	0.2	15,000	0.1
12,000	0.3	12,000	0.4
6,000	0.3	6,000	0.4
3,000	0.2	3,000	0.1

(i) Compute the expected net present values of projects A and B.

(ii) Compute the risk attached to each project i.e. standard deviation of each probability distribution.

(iii) Compute the profitability index of each project.

(iv) Which project do you recommend? State with reasons.

(6 Marks)

(b) M Ltd. belongs to a risk class for which the capitalization rate is 10%. It has 25,000 outstanding shares and the current market price is Rs. 100. It expects a net profit of Rs. 2,50,000 for the year and the Board is considering dividend of Rs. 5 per share. M Ltd. requires to raise Rs. 5,00,000 for an approved investment expenditure. Show, how the MM approach affects the value of M Ltd. if dividends are paid or not paid.

(4 Marks)

Question 5:

MN Ltd. is commencing a new project for manufacture of electric toys. The following cost information has been ascertained for annual production of 60,000 units at full capacity:

Amount per unit

Raw materials		20
Direct labour		15
Manufacturing overheads:		
	Rs.	
Variable	15	
Fixed	10	25
Selling and Distribution overheads:		
	Rs.	
Variable	3	
Fixed	1	4
Total cost		64
Profit		16
Selling price		80

In the first year of operations expected production and sales are 40,000 units and 35,000 units respectively. To assess the need of working capital, the following additional information is available:

(i) Stock of Raw materials — 3 months consumption.
(ii) Credit allowable for debtors — 1½ months.
(iii) Credit allowable by creditors — 4 months.
(iv) Lag in payment of wages — 1 month.
(v) Lag in payment of overheads — ½ month.
(vi) Cash in hand and Bank is expected to be — Rs. 60,000.
(vii) Provision for contingencies is required @ 10% of working capital requirement including that provision.

You are required to prepare a projected statement of working capital requirement for the first year of operations. Debtors are taken at cost.

(10 Marks)

Question 6:

Write short notes on the following:

(a) Functions of Finance Manager.

(4 Marks)

(b) Inter relationship between investment, financing and dividend decisions.

(3 Marks)

(c) Debt securitization

(3 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 are the major functions of the WTO? What do you understand by the term 'Most-favored-nation' (MFN)?

(5 Marks)

(b) Write a note on Cash Reserve Ratio (CRR). Explain the operation of CRR.

(3 Marks)

(c) What is meant by an 'Anti-dumping' measure?

(2 Marks)

Question 8:

(a) Define the concept of market failure. Describe the different sources of market failure.

(5 Marks)

(b) Analyse what should be the tax policy during recession and depression?

(3 Marks)

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

(2 Marks)

Question 9:

(a) Examine what types of fiscal policy measures are useful for redistribution of income in an economy?

(5 Marks)

(b) Explain the nature of changes in exchange rates and their impact on real economy?

(3 Marks)

(c) Describe the term 'Tragedy of Commons'

(2 Marks)

Question 10:

(a) Describe the different determinants of money supply in a country.

(5 Marks)

(b) Explain how speculative motive for holding cash is related to market interest rate.

(3 Marks)

(c) Identify the market outcomes for each of the following situations
(i) A few youngsters play loud music at night. Neighbours may not be able to sleep.
(ii) Ram buys a large SUV which is very heavy.

(2 Marks)

Question 11:

(a) You are given the following data on an economy in millions:

Consumer Expenditure (inclusive of indirect taxes)	110 m
Investment	20 m
Government Expenditure (inclusive of transfer payments)	70 m
Exports	20 m
Imports	50 m
Net Property Income from abroad	10 m
Transfer payments	20 m
Indirect taxes	30 m
Population	0.5 m

(i) Calculate the Gross Domestic Product at market prices.
(ii) Calculate the Gross National Income at market prices.
(iii) Calculate the Gross Domestic Product at factor cost.
(iv) Calculate the per capita Gross National Income at factor cost.

(5 Marks)

(b) Define National Income. Draw the basis of distinction between GDP at current and constant prices.

(3 Marks)

(c) Explain the term quasi-public goods.

(2 Marks)

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