Test Series: March, 2023

MOCK TEST PAPER –1

INTERMEDIATE: 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) Following are the selected financial Information of Alt Car Limited for the year ended 31st March 2022:

Financial Leverage	3
Interest	₹ 85,000
Operating Leverage	2
Variable cost as a percentage of sales	85%
Income tax rate	25%

You are required to PREPARE the Income Statement.

(b) Roma Nov Ltd. has a capital of ₹25,00,000 in equity shares of ₹100 each. The shares are currently quoted at ₹120. The company proposes to declare a dividend of ₹15 per share at the end of the current financial year. The capitalization rate for the risk class of which the company belongs is 15%. COMPUTE market price of the share at the end of the year, if

(i) Dividend is not declared.

(ii) Dividend is declared.

Assuming that the company pays the dividend and has net profits of ₹9,00,000 and makes new investments of ₹15,00,000 during the period, CALCULATE number of new shares to be issued? Use the MM model.

(c) Based on the following particulars SHOW various assets and liabilities of Raina Ltd.

Fixed assets turnover ratio (Based on Cost of sales)	10 times
Capital turnover ratio (Based on Cost of sales)	3 times
Inventory Turnover	10 times
Receivable turnover	5 times
Payable turnover	5 times
GP Ratio	40%

Gross profit during the year amounts to Rs.15,00,000. There is no long-term loan or overdraft. Reserve and surplus amount to Rs.5,00,000. Ending inventory of the year is Rs. 40,000 above the beginning inventory.

(d) Aeron We Ltd. is considering two alternative financing plans as follows:

Particulars	Plan – A (₹)	Plan – B (₹)
Equity shares of ₹ 100 each	90,00,000	90,00,000
Preference Shares of ₹ 100 each	-	20,00,000
9% Debentures	20,00,000	-
	1,10,00,000	1,10,00,000

The indifference point between the plans is ₹7,60,000. Corporate tax rate is 25%. CALCULATE the rate of dividend on preference shares. **(4 × 5 Marks = 20 Marks)**

2. RML Limited needs ₹6,50,00,000 for the Expansion purposes. The following three plans are feasible:

(I) The Company may issue 6,50,000 equity shares at ₹100 per share.

(II) The Company may issue 4,00,000 equity shares at ₹100 per share and 2,50,000 debentures of ₹100 denomination bearing a 9% rate of interest.

(III) The Company may issue 4,00,000 equity shares at ₹100 per share and 2,50,000 cumulative preference shares at ₹100 per share bearing a 9% rate of dividend.

(i) If the Company's earnings before interest and taxes are ₹15,62,500, ₹22,50,000, ₹62,50,000, ₹93,75,000 and ₹1,56,25,000, CALCULATE the earnings per share under each of three financial plans? Assume a Corporate Income tax rate of 25%.

(ii) WHICH alternative would you recommend and why? **(10 Marks)**

3. You are given the following information:

(i) Estimated monthly Sales are as follows:

	₹		₹
January	5,50,000	June	4,40,000
February	6,60,000	July	5,50,000
March	7,70,000	August	4,40,000
April	4,40,000	September	3,30,000
May	3,30,000	October	5,50,000

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

	₹		₹
April	49,500	July	55,000
May	44,000	August	49,500
June	55,000	September	49,500

(iii) Of the sales, 75% is on credit and 25% for cash. 60% 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 75% of sales and are made and paid for in the month preceding the sales.

(v) The firm has taken a loan of ₹6,00,000. Interest @ 12% p.a. has to be paid quarterly in January, April and so on.

(vi) The firm is to make payment of tax of ₹26,000 in July 2023.

(vii) The firm had a cash balance of ₹35,000 on 1St April 2023 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, 2023 on the basis of the above information. **(10 Marks)**

4. Yellow bells Ltd. wants to replace its old machine with new automatic machine. The old machine had been fully depreciated for tax purpose but has a book value of ₹3,50,000 on 31st March 2022. The machine cannot fetch more than ₹45,000 if sold in the market at present. It will have no realizable value after 10 years. The company has been offered ₹1,60,000 for the old machine as a trade in on the new machine which has a price (before allowance for trade in) of ₹6,50,000. The expected life of new machine is 10 years with salvage value of ₹63,000.

Further, the company follows straight line depreciation method but for tax purpose, written down value method depreciation @ 9% is allowed taking that this is the only machine in the block of assets.

Given below are the expected sales and costs from both old and new machine:

	Old machine (₹)	**New machine (₹)**
Sales	11,74,500	11,74,500
Material cost	2,61,000	1,83,063
Labour cost	1,95,750	1,59,500
Variable overhead	81,563	68,875
Fixed overhead	1,30,500	1,41,375
Depreciation	34,800	60,175
Profit Before Tax (PBT)	4,70,888	5,61,513
Tax @ 25%	1,17,722	1,40,378
Profit After Tax (PAT)	3,53,166	4,21,134

From the above information, ANALYSE whether the old machine should be replaced or not if required rate of return is 10%? Ignore capital gain tax.

PV factors @ 10%:

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**
PVF	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386

(10 Marks)

5. BIG BLOCK Ltd. is considering two mutually exclusive projects X and Y. You have been given below the Net Cash flow probability distribution of each project:

Project- X		Project – Y	
Net Cash Flow (₹)	**Probability**	**Net Cash Flow (₹)**	**Probability**
3,12,500	0.2	9,75,000	0.1
3,75,000	0.2	8,25,000	0.3
4,37,500	0.6	6,75,000	0.6

(i) REQUIRED:

(a) Expected Net Cash Flow of each project.

(b) Variance of each project.

(c) Standard Deviation of each project.

(d) Coefficient of Variation of each project.

(ii) IDENTIFY which project would you recommend? Give reasons. **(10 Marks)**

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

(b) DISCUSS Agency Problem and Agency Cost.

(c) DEFINE Security Premium Notes. **(4 + 4+ 2 =10 Marks)**

PAPER 8B: ECONOMICS FOR FINANCE

Question 1 is compulsory

Students can answer 3 out of the 4 remaining

Maximum Marks – 40

1. (a) Why Keynesian Equilibrium does not occur at Full Employment level? **(2 Marks)**

   (b) Outline the difficulties in measurement of national income in India? **(3 Marks)**

   (c) Calculate value of output from the following data: **(5 Marks)**

S. No.	Particulars	₹ In lakhs
1.	Net value added at factor cost	800
2.	Intermediate consumption	500
3.	Excise duty	400
4.	Subsidy	60
5.	Depreciation	80

2. (a) The nominal and real GDP respectively of a country in a particular year are 5000 Crores and ₹ 6000 Crores respectively. Calculate GDP deflator and analyze the on the level of prices of the year in comparison with the base year. **(2 Marks)**

   (b) Calculate Gross value at factor cost **(3 Marks)**

S. No.	Particulars	
1.	Units of output sold (Unit)	1000
2.	Price per unit of output (₹)	30
3.	Depreciation (₹)	1000
4.	Intermediate cost (₹)	12000
5.	Closing Stock (₹)	3000
6.	Opening Stock (₹)	2000
7.	Excise (₹)	2500
8.	Sales Tax (₹)	3500

   (c) What are the factors that causes leakages in the multiplier? **(3 Marks)**

   (d) What is government failure? **(2 Marks)**

3. (a) At the time of recession what Policy government adopt for revenue and expenditure? **(2 Marks)**

   (b) Externalities may be unidirectional or reciprocal. Substantiate this Statement with Suitable Example? **(3 Marks)**

   (c) What is Government Spending Multiplier? **(3 Marks)**

   (d) What is crowding out effect? **(2 Marks)**

4. (a) What is the distinction between Expansionary and Contractionary fiscal Policy? **(3 Marks)**

   (b) What is the distinction between Hard Peg and Soft Peg ? **(2 Marks)**

   (c) What is the Anti-Dumping Duties? **(3 Marks)**

   (d) What is Rules of Origin as Instrument of trade Policy? **(2 Marks)**

5. (a) What are the advantage of floating Exchange Rate? **(3 Marks)**

(b) The speculative demand for money and interest are inversely related. Comment. **(2 Marks)**

(c) What are advantage of Positive Externalities? **(2 Marks)**

(d) Suppose C= 80 + 0.40 (Y- T + TR); I = 400; T= 20+0.5Y; TR= 50; G =200

Find out equilibrium level of Income? **(3 Marks)**

OR

What is Nominal GDP?