

MOCK TEST PAPER –1
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 a Company is given below:

Source of capital	Book Value (₹)
Equity shares @ ₹ 100 each	24,00,000
9% Cumulative preference shares @ ₹ 100 each	4,00,000
11% Debentures	12,00,000
	40,00,000

The company had paid equity dividend @ 25% for the last year which is likely to grow @ 5% every year. The current market price of the company's equity share is ₹ 200.

Considering corporate tax @ 30%, you are required to CALCULATE:

- (i) Cost of capital for each source of capital.
- (ii) Weighted average cost of capital.

(b) Following information is provided relating to SVB Ltd.:

Sales price	₹ 21 per unit
Variable cost	₹ 13.50 per unit
Break-even point	30,000 units

You are required to CALCULATE operating leverage at sales volume 37,500 units and 45,000 units.

(c) PI Limited has the following Balance Sheet as on March 31, 2020 and March 31, 2021:

Balance Sheet

Particulars	March 31, 2020	March 31, 2021
Sources of Funds:		
Shareholders' Funds	87,500	87,500
Loan Funds	1,22,500	1,05,000
	2,10,000	1,92,500

Applications of Funds:		
Fixed Assets	87,500	1,05,000
Cash and bank	15,750	14,000
Receivables	49,000	38,500
Inventories	87,500	70,000
Other Current Assets	35,000	35,000
Less: Current Liabilities	(64,750)	(70,000)
	2,10,000	1,92,500

The Income Statement of the PI Ltd. for the year ended is as follows:

Particulars	March 31, 2020	March 31, 2021
Sales	7,87,500	8,33,000
Less: Cost of Goods sold	(7,30,100)	(7,38,500)
Gross Profit	57,400	94,500
Less: Selling, General and Administrative expenses	(38,500)	(61,250)
Earnings before Interest and Tax (EBIT)	18,900	33,250
Less: Interest Expense	(12,250)	(10,500)
Earnings before Tax (EBT)	6,650	22,750
Less: Tax	(1,995)	(6,825)
Profits after Tax (PAT)	4,655	15,925

You are required to CALCULATE for the year 2020-21:

- (i) Inventory turnover ratio
 - (ii) Financial Leverage
 - (iii) Return on Capital Employed (after tax)
- (d) Following information is given for WN Ltd.:

Earnings ₹ 30 per share

Dividend ₹ 9 per share

Cost of capital 15%

Internal Rate of Return on investment 20%

You are required to CALCULATE the market price per share using-

- (i) Gordon's formula
- (ii) Walter's formula

[4 × 5 Marks = 20 Marks]

2. Embros Ltd. is planning to invest in a new product with a project life of 8 years. Initial equipment cost will be ₹ 35 crores. Additional equipment costing ₹ 2.50 crores will be purchased at the end of the third year from the cash inflow of this year. At the end of 8th year, the original equipment will have no resale value, but additional equipment can be sold at 10% of its original cost. A working capital of ₹ 4 crores will be needed, and it will be released at the end of 8th year. The project will be financed with sufficient amount of equity capital.

The sales volumes over eight years have been estimated as follows:

Year	1	2	3	4–5	6–8
Units	14,40,000	21,60,000	52,00,000	54,00,000	36,00,000

Sales price of ₹ 120 per unit is expected and variable expenses will amount to 60% of sales revenue. Fixed cash operating costs will amount ₹ 3.60 crores per year. The loss of any year will be set off from the profits of subsequent year. The company follows straight line method of depreciation and is subject to 30% tax rate. Considering 12% after-tax cost of capital for this project, you are required to CALCULATE the net present value (NPV) of the project and advise the management to take appropriate decision.

PV factors @ 12% are:

Year	1	2	3	4	5	6	7	8
	.893	.797	.712	.636	.567	.507	.452	.404

[10 Marks]

3. GT Ltd. is taking into account the revision of its credit policy with a view to increasing its sales and profit. Currently, all its sales are on one month credit. Other information is as follows:

Contribution 2/5th of Sales Revenue

Additional funds raising cost 20% per annum

The marketing manager of the company has given the following options along with estimates for considerations:

Particulars	Current Position	Option I	Option II	Option III
Sales Revenue (₹)	40,00,000	42,00,000	44,00,000	50,00,000
Credit period (in months)	1	1½	2	3
Bad debts (% of sales)	2	2½	3	5
Cost of Credit administration (₹)	24,000	26,000	30,000	60,000

You are required to ADVISE the company for the best option.

[10 Marks]

4. A Ltd. is considering investing in new project with the following details:

Initial capital cost ₹ 100 Crores

Annual unit sales 1.25 Crores

Selling price ₹ 100 per unit

Variable cost ₹ 50 per unit

Fixed cost ₹ 12.50 Crores per year

Discounting Rate 6%

Considering life of the project as 3 years, you are required to:

- (a) CALCULATE the NPV of the project.
- (b) COMPUTE the impact on the project's NPV considering a 5% adverse variance in following variables:
- Selling Price per Unit
 - Variable Cost Per Unit

(iii) Fixed Cost Per Unit

WHICH variable is having maximum effect?

- (c) MEASURE the maximum sensitivity of the project to change in the variable (as found in part (b) above) such that NPV becomes zero.

PV factors @ 6% are:

Year	1	2	3	4	5
PV Factor	0.943	0.890	0.840	0.792	0.747

[10 Marks]

5. (a) Leo Ltd. has a net operating income of ₹ 21,60,000 and the total capitalisation of ₹ 120 lakhs. The company is evaluating the options to introduce debt financing in the capital structure and the following information is available at various levels of debt value.

Debt value (₹)	Interest rate (%)	Equity Capitalisation rate (%)
0	N.A.	12.00
10,00,000	7.00	12.50
20,00,000	7.00	13.00
30,00,000	7.50	13.50
40,00,000	7.50	14.00
50,00,000	8.00	15.00
60,00,000	8.50	16.00
70,00,000	9.00	17.00
80,00,000	10.00	20.00

You are required to COMPUTE the equity capitalization rate if MM approach is followed. Assume that the firm operates in zero tax regime and calculations to be based on book values. [8 Marks]

- (b) BRIEF OUT the remedies for Over-Capitalisation. [2 Marks]
6. (a) A finance executive of an organisation plays an important role in the company's goals, policies, and financial success. WHAT his responsibilities include? [4 Marks]
- (b) WHAT is the meaning of Venture Capital Financing. STATE some characteristics of it. [4 Marks]
- (c) BRIEF OUT certain sources of finance- Inter Corporate Deposits and Certificate of Deposit.

Or

STATE in brief four features of Plain Vanilla Bond.

[2 Marks]

PAPER 8B: ECONOMICS FOR FINANCE

Question 1 is compulsory

Students can answer 3 out of the 4 remaining

Maximum Marks – 40

1. (a) How the measurement of national Income in India is done? **(2 Marks)**
(b) What is the distinction between classical and Keynesian theory in the determination of national income? **(3 Marks)**
(c) Calculate the National Income with the help of Income Method and Expenditure Method? **(5 Marks)**

Item	₹ in crores
Net-factor income from abroad	50
Compensation of employees	1000
Net Indirect taxes	150
Rent	500
Profit	700
Private final consumption expenditure	1500
Net domestic capital formation	600
Depreciation	200
Interest	500
Mixed Income of self employed	900
Export	90
Import	60
Government final Consumption expenditure	1200
Operating surplus	1700
Employer's Contribution to social security Scheme	250

2. (a) What do you understand by Gross Investment? **(2 Marks)**
(b) Elaborate the Concept of deflationary gap and how this impact the economy? **(3 Marks)**
(c) Calculate M3 from the following data: **(3 Marks)**

Components	₹ in Crore
Currency with the Public	15,000
Demand Deposit with Banks	12,000
Time Deposit with Banks	10,000
Other Deposit with Reserve bank	70,000

- (d) Efficiency of market is affected by monopoly power: Comment. **(2 Marks)**
3. (a) What are the different motive for holding cash according to Keynes? **(2 Marks)**
(b) What is escalated tariff structure? **(2 Marks)**
(c) What is the relationship between money multiplier and money supply? **(3 Marks)**

- (d) Describe the various interventionist measures adopted by the government? **(3 Marks)**
4. (a) How do changes in Statutory liquidity ratio impact the economy? **(2 Marks)**
- (b) What is meant by Foreign Portfolio Investment? **(2 Marks)**
- (c) What is the market Outcome of Price Ceiling? **(3 Marks)**
- (d) What is Pump Priming? **(3 Marks)**
5. (a) Define Public good. Why do you consider national defence as a Public good? **(3 Marks)**
- (b) What role does market Stabilization Scheme (MSS) Play in our Economy? **(3 Marks)**
- (c) What is the distinction between Nominal GDP and Real GDP? **(2 Marks)**
- (d) For an Economy $C = 40 + 0.75Y_d$,
 $I = 60$
 $G = 75$
 Transfer Payment = 100
 Income Tax = 0.2 y
 Calculate the equilibrium of Income **(2 Marks)**
- Or
- What is trading Block?