Test Series: March, 2021

MOCK TEST PAPER –1

INTERMEDIATE (NEW): GROUP – II

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 answer 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 (For both the part of paper 8) **Maximum Marks – 60**

1. Answer the following:

(a) The following information is given:

Dividend per share (DPS)	Rs. 9
Cost of capital (K_e)	19%
Internal rate of return on investment	24%
Retention Ratio	25%

CALCULATE the market price per share by using:

(i) Walter's formula

(ii) Gordon's formula (Dividend Growth model)

(b) SN Ltd. has furnished the following ratios and information relating to the year ended 31st March 2021:

Share Capital	Rs. 6,25,000
Working Capital	Rs. 2,00,000
Gross Margin	25%
Inventory Turnover	5 times
Average Collection Period	1.5 months
Current Ratio	1.5:1
Quick Ratio	0.7:1
Reserves & Surplus to Bank & Cash	3 times

Further, the assets of the company consist of fixed assets and current assets, while its current liabilities comprise bank credit and others in the ratio of 3:1. Assume 360 days in a year.

You are required to PREPARE the Balance Sheet as on 31st March 2021.

(Note- Balance sheet may be prepared in traditional T Format.)

(c) Following information are related to four firms of the same industry:

Firm	Change in Revenue	Change in Operating Income	Change in Earning per Share
P	25%	23%	30%

Q	27%	30%	26%
R	24%	36%	20%
S	20%	30%	20%

For all the firms, FIND OUT:

(i) Degree of operating leverage, and

(ii) Degree of combined leverage.

(d) HN Limited is considering total investment of Rs. 20 lakhs. You are required to CALCULATE the level of earnings before interest and tax (EBIT) at which the EPS indifference point between the following financing alternatives will occur:

(i) Equity share capital of Rs. 12,00,000 and 14% debentures of Rs. 8,00,000.

Or

(ii) Equity share capital of Rs. 8,00,000, 16% preference share capital of Rs. 4,00,000 and 14% debentures of Rs. 8,00,000.

Assume the corporate tax rate is 30% and par value of equity share is Rs.10 in each case.

(4 × 5 Marks = 20 Marks)

2. CALCULATE the WACC by using Market value weights.

The capital structure of the company is as under:

	(Rs.)
Debentures (Rs.100 per debenture)	10,00,000
Preference shares (Rs.100 per share)	10,00,000
Equity shares (Rs.10 per share)	20,00,000
	40,00,000

The market prices of these securities are:

Debentures Rs. 115 per debenture

Preference shares Rs. 120 per preference share

Equity shares Rs. 265 each.

Additional information:

(1) Rs.100 per debenture redeemable at par, 10% coupon rate, 2% floatation cost, 10-year maturity.

(2) Rs.100 per preference share redeemable at par, 5% coupon rate, 2% floatation cost and 10-year maturity.

(3) Equity shares have a floatation cost of Rs. 1 per share.

The next year expected dividend is Rs. 5 with an annual growth of 15%. The firm has the practice of paying all earnings in the form of dividend.

Corporate tax rate is 30%. Use YTM method to calculate cost of debentures and preference shares.

(10 Marks)

3. PREPARE monthly cash budget for the first six months of 2021 on the basis of the following information:

(i) Actual and estimated monthly sales are as follows:

Actual	(Rs.)	Estimated	(Rs.)
October 2020	2,00,000	January 2021	60,000
November 2020	2,20,000	February 2021	80,000
December 2020	2,40,000	March 2021	1,00,000
		April 2021	1,20,000
		May 2021	80,000
		June 2021	60,000
		July 2021	1,20,000

(ii) Operating Expenses (including salary & wages) are estimated to be payable as follows:

Month	(Rs.)	Month	(Rs.)
January 2021	22,000	April 2021	30,000
February 2021	25,000	May 2021	25,000
March 2021	30,000	June 2021	24,000

(iii) Of the sales, 75% is on credit and 25% for cash. 60% of the credit sales are collected after one month, 30% after two months and 10% after three months.

(iv) Purchases amount to 80% of sales and are made on credit and paid for in the month preceding the sales.

(v) The firm has 12% debentures of Rs.1,00,000. Interest on these has to be paid quarterly in January, April and so on.

(vi) The firm is to make an advance payment of tax of Rs. 5,000 in April.

(vii) The firm had a cash balance of Rs. 40,000 at 31st Dec. 2020, 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). **(10 Marks)**

4. (a) N&B Ltd. is considering one of two mutually exclusive proposals, Projects A and B, which require cash outlays of Rs. 34,00,000 and Rs. 33,00,000 respectively. The certainty-equivalent (C.E) approach is used in incorporating risk in capital budgeting decisions. The current yield on government bonds is 5% and this is used as the risk free rate. The expected net cash flows and their certainty equivalents are as follows:

Year-end	Project A		Project B	
	Cash Flow (Rs.)	C.E.	Cash Flow (Rs.)	C.E.
1	16,75,000	0.8	16,75,000	0.9
2	15,00,000	0.7	15,00,000	0.8
3	15,00,000	0.5	15,00,000	0.7
4	20,00,000	0.4	10,00,000	0.8
5	21,20,000	0.6	9,00,000	0.9

PV factor at 5% are as follows:

Year	1	2	3	4	5
PV factor	0.952	0.907	0.864	0.823	0.784

DETERMINE which project should be accepted. **(8 Marks)**

(b) DISCUSS the advantages of Certainty Equivalent Method. **(2 Marks)**

5. GG Pathology Lab Ltd. is using 2D sonography machine which has reached the end of its useful life. The lab is intending to upgrade along with the technology by investing in 3D sonography machine as per the choices preferred by the patients. Following new 3D sonography machine of two different brands with same features is available in the market:

Brand	Cost of machine (Rs.)	Life of machine (Rs.)	Maintenance Cost (Rs.)			SLM Depreciation rate (%)
			Year 1-5	Year 6-10	Year 11-15	
X	15,00,000	15	50,000	70,000	98,000	6
Y	10,00,000	10	70,000	1,15,000	-	6

Residual Value of machines shall be dropped by 10% and 40% of Purchase price for Brand X and Y respectively in the first year and thereafter shall be depreciated at the rate mentioned above on the original cost.

Alternatively, the machine of Brand Y can also be taken on rent to be returned back to the owner after use on the following terms and conditions:

- Annual Rent shall be paid in the beginning of each year and for first year it shall be Rs. 2,24,000. Annual Rent for the subsequent 4 years shall be Rs. 2,25,000.
- Annual Rent for the final 5 years shall be Rs. 2,70,000.
- The Rent/Agreement can be terminated by GG Labs by making a payment of Rs. 2,20,000 as penalty. This penalty would be reduced by Rs. 22,000 each year of the period of rental agreement.

You are required to:

(i) ADVISE which brand of 3D sonography machine should be acquired assuming that the use of machine shall be continued for a period of 20 years.

(ii) STATE which of the option is most economical if machine is likely to be used for a period of 5 years?

The cost of capital of GG Labs is 12%.

The present value factor of Rs. 1 @ 12% for different years is given as under:

Year	PVF	Year	PVF
1	0.893	9	0.361
2	0.797	10	0.322
3	0.712	11	0.287
4	0.636	12	0.257

5	0.567	13	0.229
6	0.507	14	0.205
7	0.452	15	0.183
8	0.404	16	0.163

(10 Marks)

6. (a) DISCUSS the advantages and disadvantages of Wealth maximization principle. **(4 Marks)**

   (b) DISCUSS in brief the characteristics of Debentures. **(4 Marks)**

   (c) DEFINE Security Premium Notes.

   Or

   DEFINE Masala bond. **(2 Marks)**

PAPER 8B: ECONOMICS FOR FINANCE

Time Allowed – 1:15 Hours **Maximum Marks - 40**

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 **7** is compulsory question.*

*Attempt any **three** from the remaining four questions*

In case, any candidate answers extra questions(s)/sub-question(s)/sub-question(s) over and above the required number, then only the requisite number of questions first answered will be the evaluated the rest answer shall be ignored

Working Notes should form part of the answer.

QUESTIONS

7. (a) How is the measurement of National Income done in India? **(2 Marks)**

(b) What are the important Characteristics of Public Good? Why **does** market fails to produce public goods? **(3 Marks)**

(c) Calculate Personal **Income** and Personal Disposable Income from the following data (In crores of Rupees) **(5 Marks)**

	Particular	**Rs. In crores**
(i)	National Income	2000
(ii)	Undistributed Profits	175
(iii)	Net Interest Payment made by households	35
(iv)	Corporate Tax	20
(v)	Transfer payment to the households from firms And government	25
(vi)	Personal Income Tax	50
(vii)	Non-Tax Payments	40

8. (a) Calculate Operating Surplus and Net Value added at Factor Cost from the following data:

	Particulars	**Rs in Crore**
(i)	Compensation of Employee	600
(ii)	Intermediate Consumption	200
(iii)	Sales	4500
(iv)	Depreciation	200
(v)	Rent	300
(vi)	Interest	500
(vii)	Mixed Income of Self Employed	700
(viii)	Purchase of materials	90
(ix)	Opening Stock	50
(x)	Closing Stock	60

(xi)	Excise Tax	70	
(xii)	Subsidies	20	**(5 Marks)**

(b) What do you understand by the term "Tragedy of Common's "in Public Finance. **(2 Marks)**

(c) How fiscal Policy can be used as a tool for Reduction in inequalities of Income and Wealth? **(3 Marks)**

9. (a) What is the effect of government expenditure on Money Supply? **(2 Marks)**

(b) What is credit multiplier and how it is calculated? **(3 Marks)**

(c) In an economy the equations are given as follows:

C = 200 + 0.80 Yd, I = 400, G = 300, T = 100, TR = 50

Find the equilibrium level of Income. **(5 Mark)**

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

(b) The developing countries will have disadvantage if they engage in liberal **trade**

Explain in detail. **(3 Marks)**

(c) The Role of bank rate as an instrument of monetary policy? **(3 Marks)**

(d) What is the difference between Repo and Reverse Repo Rate? **(2 Marks)**

11. (a) What is Cambridge – Approach theory of demand for Money? **(2 Marks)**

(b) Relevance of Monetary Policy Committee and its impact? **(3 Marks)**

(c) What is the leakages-injections approach in two sector circular flow Model? **(3 Marks)**

(d) What are the conceptual three functions framework of the responsibilities of Government in Public Finance? **(2 Marks)**