MOCK TEST PAPER – II

INTERMEDIATE (NEW): 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) The proportion and required return of debt and equity was recorded for a company with its increased financial leverage as below:

Debt (%)	Required return (K_d) (%)	Equity (%)	Required Return (K_e) (%)	Weighted Average Cost of Capital (WACC) (K_o)(%)
0	5	100	15	15
20	6	80	16	?
40	7	60	18	?
60	10	40	23	?
80	15	20	35	?

You are required to complete the table and IDENTIFY which capital structure is most beneficial for this company. (Based on traditional theory, i.e., capital structure is relevant).

(b) Annova Ltd is considering raising of funds of about Rs.250 lakhs by any of two alternative methods, viz., 14% institutional term loan and 13% non-convertible debentures. The term loan option would attract no major incidental cost and can be ignored. The debentures would have to be issued at a discount of 2.5% and would involve cost of issue of 2% on face value.

ADVISE the company as to the better option based on the effective cost of capital in each case. Assume a tax rate of 50%.

(c) Probabilities for net cash flows for 3 years of a project of Ganesh Ltd are as follows:

Year 1		Year 2		Year 3	
Cash Flow (Rs.)	**Probability**	**Cash Flow (Rs.)**	**Probability**	**Cash Flow (Rs.)**	**Probability**
2,000	0.1	2,000	0.2	2,000	0.3
4,000	0.2	4,000	0.3	4,000	0.4
6,000	0.3	6,000	0.4	6,000	0.2
8,000	0.4	8,000	0.1	8,000	0.1

CALCULATE the expected net cash flows and the present value of the expected cash flow, using 10 per cent discount rate. Initial Investment is Rs. 10,000

(d) With the help of the following information ANALYSE and complete the Balance Sheet of Anup Ltd.:

Equity share capital	Rs. 1,00,000
The relevant ratios of the company are as follows:	
Current debt to total debt	0.40
Total debt to Equity share capital	0.60
Fixed assets to Equity share capital	0.60
Total assets turnover	2 Times
Inventory turnover	8 Times

(4 × 5 = 20 Marks)

2. (a) The capital structure of Anshu Ltd. as at 31.3.2019 consisted of ordinary share capital of Rs. 5,00,000 (face value Rs. 100 each) and 10% debentures of Rs. 5,00,000 (Rs. 100 each). In the year ended with March 2019, sales decreased from 60,000 units to 50,000 units. During this year and in the previous year, the selling price was Rs. 12 per unit; variable cost stood at Rs. 8 per unit and fixed expenses were at Rs. 1,00,000 p.a. The income tax rate was 30%.

You are required to CALCULATE the following:

(i) The percentage of decrease in earnings per share.

(ii) The degree of operating leverage at 60,000 units and 50,000 units.

(iii) The degree of financial leverage at 60,000 units and 50,000 units. **(6 Marks)**

(b) EXPLAIN the limitations of Leasing? **(4 Marks)**

3. (a) Navya Ltd has annual credit sales of Rs. 45 lakhs. Credit terms are 30 days, but its management of receivables has been poor and the average collection period is 50 days, Bad debt is 0.4 per cent of sales. A factor has offered to take over the task of debt administration and credit checking, at an annual fee of 1 per cent of credit sales. Navya Ltd. estimates that it would save Rs. 35,000 per year in administration costs as a result. Due to the efficiency of the factor, the average collection period would reduce to 30 days and bad debts would be zero. The factor would advance 80 per cent of invoiced debts at an annual interest rate of 11 per cent. Navya Ltd. is currently financing receivables from an overdraft costing 10 per cent per year.

If occurrence of credit sales is throughout the year, COMPUTE whether the factor's services should be accepted or rejected. Assume 365 days in a year. **(6 Marks)**

(b) EXPLAIN the principles of "Trading on equity". **(4 Marks)**

4. (a) Prem Ltd has a maximum of Rs. 8,00,000 available to invest in new projects. Three possibilities have emerged and the business finance manager has calculated Net present Value (NPVs) for each of the projects as follows :

Investment	Initial cash outlay Rs.	NPV Rs.
Alfa (α)	5,40,000	1,00,000
Beta(β)	6,00,000	1,50,000
Gama (γ)	2,60,000	58,000

DETERMINE which investment/combination of investments should the company invest in, if we assume that the projects can be divided? **(6 Marks)**

(b) Invest Corporation Ltd. adjusts risk through discount rates by adding various risk premiums to the risk free rate. Depending on the resultant rate, the proposed project is judged to be a low, medium or high risk project.

Risk level	Risk free rate (%)	Risk Premium (%)
Low	8	4
Medium	8	7
High	8	10

DEMONSTRATE the acceptability of the project on the basis of Risk Adjusted rate. **(4 Marks)**

5. The following information is supplied to you:

	Rs.
Total Earnings	2,00,000
No. of equity shares (of Rs. 100 each)	20,000
Dividend paid	1,50,000
Price/ Earnings ratio	12.5

Applying Walter's Model

(i) DETERMINE whether the company is following an optimal dividend policy.

(ii) IDENTIFY, what should be the P/E ratio at which the dividend policy will have no effect on the value of the share.

(iii) Will your decision change, if the P/E ratio is 8 instead of 12.5? ANALYSE. **(10 Marks)**

6. (a) DESCRIBE Bridge Finance.

(b) STATE Virtual Banking? DISCUSS its advantages.

(c) EXPLAIN Concentration Banking **(4 + 4 + 2 = 10 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.

7. (a) Suppose in an economy:

Consumption Function (C) = 100 + 0.9 Y_d, where Y_d = Y-T

Autonomous Investment (I) = Rs. 100 crores

Government Expenditure G = Rs. 120 crores

Taxes (T) = Rs.50 crores

Exports (X) = Rs.200 crores

Import Function (M) = 100 + 0.15Y

Where Y and Y_d National Income and Personal Disposable Income respectively. All the figures are in Rupees. Find the Equilibrium level of GDP? **(3 Marks)**

(b) Define permanent income and state its relationship to demand for real money balances? **(3 Marks)**

(c) Explain why government imposes price ceilings? **(2 Marks)**

(d) What is meant by trade distortion? **(2 Marks)**

8. (a) (i) Explain how decline in interest rates influence economic activity by changing the incentives for households and businesses to save or invest? **(3 Marks)**

(ii) Define Information Failure **(3 Marks)**

(b) (i) What is meant by nominal GDP-growth? **(2 Marks)**

(ii) Define optimal output from the point of view of social welfare? **(2 Marks)**

9. (a) (i) Explain the effects of monetary policy through balance sheet channel **(3 Marks)**

(ii) What is the major determinant of the economic functions of a government? **(2 Marks)**

(b) Calculate (a) GDPMP and (b) NNPFC from the following data: **(5 Marks)**

Particulars		(Rs) In Crore
(i)	Net indirect tax	208
(ii)	Consumption of fixed capital	42
(iii)	Net factor income from abroad	-40
(iv)	Rent	311
(v)	Profits	892

(vi)	Interest	81
(vii)	Royalty	6
(viii)	Wages and salary	489
(ix)	Employer's contribution to Social Security Scheme	50

10. (a) (i) How do foreign direct investments enhance human capital in recipient countries? **(3 Marks)**

(ii) Distinguish between domestic subsidy and export subsidy? **(2 Marks)**

(b) (i) What do you understand by the term 'final good"? **(2 Marks)**

(ii) Explain the different types of Externalities? How Externalities lead to welfare loss of markets? **(3 Marks)**

11. (a) (i) What is the rationale for government intervention in allocation of resources? **(3 Marks)**

(ii) Distinguish between 'non tariff measures' and 'non tariff barriers' **(3 Marks)**

(b) (i) What do you understand by the term 'cross rate'? **(2 Marks)**

(ii) What is the objective of policies requiring foreign entities to procure local contents? **(2 Marks)**

OR

What is meant by open market operations?