CA INTER

Test Code – JK-FME-12

(Date: 15-10-2020)

(Marks - 100)

Question No.1 is compulsory.

Attempt any four questions out of the remaining five questions.

Working notes should form part of the answer

Section A - Financial Management

Q.1 (a) Following information is available in respect of Lockdown Ltd.

Profit Volume Ratio	:	25%
Operating Leverage	:	5
Tax Rate	:	45%
No. of equity shares	:	10 lakh
10% Debentures	:	3000 lakh
Financial leverage	:	4
Price Earnings Ratio	:	8 times

Prepare Income Statement and find out market price per share

(5 Marks)

(b) A firm has an EBIT of ₹4,00,000. It belongs to risk class of 10% using NOI approach compute value of cost of equity if it employees 6% debt to the extent of 20%, 30% or 50% of total capital fund of ₹20,00,000.

(5 Marks)

(c) The annual cash requirement of Unlock Ltd. is ₹12,00,000. Cost of conversion of marketable securities per lot is ₹300 and company can earn 5% annual yield on securities.

- Find out the optimum cash balance as per Baumol's Model.
- Also compute opportunity cost of holding cash.

(5 Marks)

(d) Sanitizer Ltd. has to make a choice between two identical plants

Plant-A costs ₹10,00,000 and will last 3 years with operating cost 2,50,000 p.a.

Plant-B costs ₹7,00,000 and will last for 2 years with operating cost 4,00,000 p.a.

Which plant Santizier Ltd. should consider if cost of capital is 11%.

(5 Marks)

Q.2 (a) Distance Ltd. has 60,000 shares selling at ₹20 per share. The company expects to make net income of ₹1,75,000 by end of the year. The capitalization rate of the company is 15%. The company is planning to pay Dividend of ₹2 per share at end of the year.

As per Modigliani Miller Model.

(a) What will be price of the shares at the end of the year?

(i) If Dividend is paid

(ii) If Dividend is not paid?

(b) How many news shares must the company issue if Dividend is paid and company needs ₹3,70,000 for investment project.

(5 Marks)

(b) A project under evaluation has a risk free rate of 4% and appropriate risk premium is 6%. The project costing ₹1000 has the following estimated NPV and the probabilities of different conditions.

Conditions	NPV @ 4%	NPV @ 10%	Probability
Good	1773	1487	0.10
Average	1220	989	0.20
Medium	665	492	0.40
Poor	110	-5	0.20
Bad	-445	-503	0.10

Analyze the expected NPV and its variability.

(5 Marks)

Q.3 Spray Ltd. gives you following information

(‘000)

	Year-1	**Year-2**	**Year-3**
(1) Income Statement			
Sales	1,000	2,000	3,000
(-) COGS	(400)	(850)	(1,500)
Gross Profits	600	1,150	1,500
(-) Expenses	(500)	(1,000)	(1,300)
Net Profits	**100**	**150**	**200**
(2) Balance Sheet			
Fixed Assets	300	400	500
Current Assets	200	300	350
	500	**700**	**850**

Proprietary Fund	250	440	630
Long term loans	150	140	120
Current Liability	100	120	150
	500	**700**	**900**

Calculate for the year-2 and year-3.

(a) Fixed Asset Turnover Ratio.

(b) Return on Proprietory Fund.

(c) Gross Profit Ratio.

(d) Current Ratio.

(e) Working Capital Turnover Ratio. **(10 Marks)**

Q.4 Following information is available in respect of Aatmanirbhar Ltd.

Return on Government Securities	10%
Stock Market return on Equity	15%
Growth rate	12%
Beta Index	1.6
Tax Rate	40%
Earnings for Equity Shareholders	₹ 15,00,000
Dividend Paid to Equity holders	₹8,00,000
Number of Equity shares	1,00,000
Debt – Equity Ratio	2:3
(Debt is risk free)	
Market price per Equity Shares	₹ 80

Compute WACC using

(i) Capital Asset Pricing Model

(ii) Gordon's Approach.

(10 Marks)

Q.5 A company intends to produce a new product priced at ₹200 per unit with expected monthly sales 5000 units. Variable cost will be ₹150 per unit. It is estimated that 10% of customers will default while others will pay on due date. Interest rates are 15% p.a. Credit allowed to customers is 3 months.

A credit agency has offered the company a system by which it claims can identify possible bad debts. It will cost ₹5,00,000 p.a. to operate and will identify 25% of customers as being potential bad debts. If these customers are rejected then no actual bad debts will result.

Should the credit agency system be used? **(10 Marks)**

Q.6 (a) Write a Note on Debt Securitisation

(3 Marks)

(b) Difference between Financial Accounting and Financial Management

(3 Marks)

(c) Write Short Note on Capital Budgeting Process.

(4 Marks)

OR

Write Note on Operating Cycle

(4 Marks)

Question number One is Compulsory
Answer any three Questions from the rest
Working Notes should form part of the respective answers

Section B - Economics in finance

Q.1 (a) Explain Sanitary and Phytosanitary measures

(2 Marks)

(b) Explain Usefulness in Calculating National Income

(3 Marks)

(c) Explain Stabilization Function & Allocation Function

(3 Marks)

(d) Short note on Recessionary Gap

(2 Marks)

Q.2 (a) (i) Explain Free rider Problem?

(3 Marks)

(ii) Explain MSS and CRR

(2 Marks)

(b) Determine liquidity aggregates for the following data:

i. NM3 is ₹ 50 Lakhs
ii. Post office deposits amount to ₹ 15 Lakhs, out of which ₹ 4 Lakhs are NSCs.
iii. ABC Ltd. a refinancing institution, has term deposits worth ₹ 20 Lakhs and has borrowing worth ₹ 5 Lakhs
iv. ABC Ltd. has also issued deposits certificates of ₹ Lakhs
v. Bajaj Finance, a NBFC, has deposits from public worth ₹ 4 Lakhs.

(5 Marks)

Q.3 (a) (i) Explain Comparative Cost theory given by Ricardo

(3 Marks)

(ii) Find out net indirect tax from the following data:

(2 Marks)

	(₹ In Lakhs)
GDP_{MP}	8,75,600.00
GDP_{FC}	5,23,670.00
NFIA	3,500.00
Depreciation	1,20,518.00

(b) (i) Explain Adverse Selection & Moral hazard

(3 Marks)

(ii) Explain Bank rate & Open Market Operation

(2 Marks)

Q.4 (a) (i) Explain Demerits of GATT

(3 Marks)

(ii) Explain Public Expenditure & Public revenue

(2 Marks)

(b) (i) Short note on Monetary Policy Committee

(3 Marks)

(ii) Explain system of regional accounts in India

(2 Marks)

Q.5 (a) (i) Explain Transaction motive & Precautionary Motive of demand of money **(3 Marks)**

(ii) Explain Mixed Tariff & Escalated Tariff

(2 Marks)

(b) (i) Impact of Appreciation of Home currency on Domestic Economy

(3 Marks)

(ii) Explain Pure and Impure Public Goods

(2 Marks)

OR

(i) Explain Merits of FDI **(2 Marks)**