J.K. SHAH TEST SERIES
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CA INTERMEDIATE

SUBJECT- FM & Economics

Test Code – CIM 8654

(Date :)

(Marks - 100)

PART A : FINANCIAL MANAGEMENT (60 MARKS)

QUESTION 1 IS COMPULSORY. ATTEMPT ANY FOUR OUT OF FIVE QUESTIONS.
WORKING NOTES SHOULD FORM PART OF YOUR ANSWER.
WRITE NEW QUESTION ON NEW PAGE

QUESTION 1(A) **(5 MARKS)**

MT Limited has the following Balance Sheet as on March 31, 2019 and March 31, 2020:

Balance Sheet

	Rs. in lakhs	
	March 31, 2019	**March 31, 2020**
Sources of Funds:		
Shareholders' Funds	2,500	2,500
Loan Funds	3,500	3,000
	6,000	**5,500**
Applications of Funds:		
Fixed Assets	3,500	3,000
Cash and bank	450	400
Receivables	1,400	1,100
Inventories	2,500	2,000
Other Current Assets	1,500	1,000
Less: Current Liabilities	(1,850)	(2,000)
	6,000	**5,500**

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

	Rs. in lakhs	
	March 31, 2019	**March 31, 2020**
Sales	22,500	23,800
Less: Cost of Goods sold	(20,860)	(21,100)
Gross Profit	1,640	2,700
Less: Selling, General and Administrative expenses	(1,100)	(1,750)
Earnings before Interest and Tax (EBIT)	540	950
Less: Interest Expense	(350)	(300)
Earnings before Tax (EBT)	190	650
Less: Tax	(57)	(195)
Profits after Tax (PAT)	133	455

Required:

CALCULATE for the year 2019-20-

(a) Inventory turnover ratio
(b) Financial Leverage
(c) Return on Capital Employed (ROCE)
(d) Return on Equity (ROE)
(e) Average Collection period. [Take 1 year = 365 days]

QUESTION 1(B) **(5 MARKS)**

XYZ Ltd. is currently earning a profit after tax of Rs.25,00,000 and its shares are quoted in the market atRs.450 per share. The company has 1,00,000 shares outstanding and has not debt in its capital structure. It is expected that the same level of earnings will be maintained for future years also. The company has 100 per cent pay-out policy.

Required:

(i) Calculated the Cost of equity

(ii) If the company's pay-out ratio is assumed to be 70% and it earns 20% rate of return on its investment, then what would be the firm's cost of equity?

QUESTION 1(C) **(5 MARKS)**

Following data is available in respect of two companies having same business risk: Capital employed = Rs. 2,00,000 ,EBIT = Rs. 30,000 Ke = 12.5%

Sources	Levered Company (Rs.)	Unlevered Company(Rs.)
Debt (@10%)	1,00,000	Nil
Equity	1,00,000	200000

Investor is holding 15% shares in levered company. **CALCULATE increase in annual earnings of investor** if he switches his holding from Levered to Unlevered company.

QUESTION 1(D) **(5 MARKS)**

From the following financial data of Company A and Company B

Prepare their Income Statements.

	Company A (Rs.)	Company B (Rs.)
Variable Cost	56,000	60% of sales
Fixed Cost	20,000	-
Interest Expenses	12,000	9,000
Financial Leverage	5 : 1	-
Operating Leverage	-	4 : 1
Income Tax Rate	30%	30%
Sales	-	1,05,000

QUESTION 2 **(10 MARKS)**

A company is considering the proposal of taking up a new project which requires an investment of Rs.800 lakhs on machinery and other assets. The project is expected to yield the following earnings (before depreciation and taxes) over the next five years:

Year	Earnings (Rs. in lakhs)
1	320
2	320
3	360
4	360
5	300

The cost of raising the additional capital is 12% and assets have to be depreciated at 20% on written down value basis. The scrap value at the end of the five year period may be taken as zero. Income-tax applicable to the company is 40%.

You are required to **CALCULATE the net present value of the project** and a**dvise the management to take appropriate decision**. **Also CALCULATE the Internal Rate of Return of the Project.**

Note: Present values of Re. 1 at different rates of interest are as follows:

Year	10%	12%	14%	16%	20%
1	0.91	0.89	0.88	0.86	0.83
2	0.83	0.80	0.77	0.74	0.69
3	0.75	0.71	0.67	0.64	0.58
4	0.68	0.64	0.59	0.55	0.48
5	0.62	0.57	0.52	0.48	0.40

QUESTION 3 **(10 MARKS)**

XYZ Ltd, is planning to procure a machine at an investment of Rs. 40 Lakhs. The Expected Cash Flow after Tax for next three years is as follows

(Rs. in Lakhs)

Year l		Year 2		Year 3	
CFAT	**Profitability**	**CFAT**	**Profitability**	**CFAT**	**Profitability**
12	0.1	12	0.1	18	0.2
15	0.2	18	0.3	20	0.5
18	0.4	30	0.4	32	0.2
32	0.3	40	0.2	45	0.1

The Company wishes to consider all possible risks factors relating to the Machine. The Company wants to know -

1. Expected NPV of this proposal, assuming independent probability distribution with 7% Risk Free Rate of Interest.
2. Possible Deviations on Expected Values.

QUESTION 4 **(10 MARKS)**

TM Limited, a manufacturer of colour TV sets is considering the liberalization of existing credit terms to three of their large customers A, B and C. The credit period and likely quantity of TV sets that will be sold to the customers in addition to other sales are as follows:

Quantity sold (No. of TV Sets)

Credit Period (Days)	A	B	C
0	10,000	10,000	-
30	10,000	15,000	-
60	10,000	20,000	10,000
90	10,000	25,000	15,000

The selling price per TV set is Rs.15,000. The expected contribution is 50% of the selling price. The cost of carrying receivable averages 20% per annum.

<u>You are required to COMPUTE the credit period to be allowed to each customer</u>.

(Assume 360 days in a year for calculation purposes).

QUESTION 5 **(10 MARKS)**

The following data relating to an auto component manufacturing company is available for the year 20X4:

Raw material held in storage	20 days
Receivables collection period	30 days
Conversion process period (raw material - 100%, other costs - 50% complete)	
10 days Finished goods storage period	45 days
Credit period from suppliers	60 days
Advance payment to suppliers	5 days
Total cash operating expenses per annum	Rs. 800 lakhs

75% of the total cash operating expenses are for raw material. 360 days are assumed in a year.

<u>You are required to calculate:</u>

(i) Each item of current assets and current liabilities,

(ii) The working capital requirement, if the company wants to maintain a cash balance of Rs. 10 lakhs at all times.

QUESTION 6(A) **(3 MARKS)**

DESCRIBE Bridge Finance.

QUESTION 6(B) **(4 MARKS)**

What is debt securitisation? EXPLAIN the basics of debt securitisation process.

QUESTION 6(C) **(3 MARKS)**

Give limitations of leasing.

PART B : ECONOMICS(40 MARKS)

QUESTION 7 IS COMPULSORY.

ATTEMPT ANY THREE OUT OF FOUR QUESTIONS.

QUESTION 7(A) **(5 MARKS)**

Compute GNP at factor cost and NDP at market price using expenditure method from the following data:

(Rs. in Crores)

Personal Consumption expenditure	2900	
Imports	300	
Gross public Investment	500	
Consumption of fixed capital	60	
Exports	200	
Inventory Investment	170	
Government purchases of goods & services	1100	
Gross Residential construction Investment	450	
Net factor Income from abroad	(-)30	
Gross business fixed Investment	410	
Subsidies	80	

QUESTION 7(B) **(3 MARKS)**

What is meant by expansionary fiscal policy? Under what circumstances do government pursue expansionary policy?

QUESTION 7(C) **(2 MARKS)**

Explain the functioning of SLR?

QUESTION 8(A) **(3 MARKS)**

Explain with example how Ad Valorem Tariff is levied.

QUESTION 8(B) **(2 MARKS)**

Write a note on two major components of Reserve Money.

QUESTION 8(C) **(3 MARKS)**

Explain the different types of Externalities? How Externalities lead to welfare loss of markets?

QUESTION 8(D) **(2 MARKS)**

"Money has four functions: a medium, a measure, a standard and a store." Elucidate.

QUESTION 9(A) **(3 MARKS)**

Define aggregate demand. How do you derive the Keynesian aggregate demand schedule?

QUESTION 9(B) **(2 MARKS)**

What do you mean by anti-dumping duties?

QUESTION 9(C) **(3 MARKS)**

Describe the determinants of demand for money as identified by Milton Friedman in his re-statement of Quantity Theory of demand for money.

QUESTION 9(D) **(2 MARKS)**

List the point of difference between fixed exchange rate and floating exchange rate.

QUESTION 10(A) **(3 MARKS)**

Explain the effects of monetary policy through balance sheet channel?

QUESTION 10(B) **(2 MARKS)**

What is the major determinant of the economic functions of a government?

QUESTION 10(C) **(3 MARKS)**

Suppose M3 = Rs. 450000 Crore

Currency with Public = Rs 3000 Crore

Demand Deposits of Banks = Rs. 100000 Crore Other deposits with RBI= Rs. 100000 Crore
Saving Deposits with Post Office Saving Banks = Rs. 150000 Crore

Total deposits with the Post Office Savings Organization (excluding National Saving Certificate) = Rs. 20000 Crore

National Saving Certificate = Rs. 250 Crore

Calculate Net Time Deposits and M4 with the banking system?

QUESTION 10(D) **(2 MARKS)**

Distinguish between Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI).

QUESTION 11(A) **(3 MARKS)**

How do Governments correct market failure resulting from demerit Goods?

QUESTION 11(B) **(2 MARKS)**

Explain the concerns and challenges faced by WTO (Any 6 points)

QUESTION 11(C) **(3 MARKS)**

What is the crux of Heckscher-Ohlin theory of International Trade?

QUESTION 11(D) **(2 MARKS)**

Examine why General Agreement in Tariff & Trade (GATT) lost its relevance.