CA INTERMEDIATE

Test Code – JKN_FME_11

(Date :09/09/2020)

(100 Marks)

PART-I

FINANCIAL MANAGEMENT

Question No. 1 is compulsory.

Attempt any four questions from the remaining five questions.

Q.1 **(5 MARKS X 4 = 20 MARKS)**

A. The following is the Capital Structure of Gabbar Ltd.

Source	Amount
12% Preference Capital	5,00,000
Equity Share Capital	?
16% Debt	?
Total =	**20,00,000**

- Tax rate applicable 30%.
- Debt is 2/3 of Equity Share Capital.
- Cost of Equity Share Capital is 20%.

Compute Weighted Average Cost of Capital

B. The accountant of Moon Ltd. has reported the following data:

Gross profit	Rs. 60,000
Gross Profit Margin	20 per cent
Total Assets Turnover	0.30:1
Net Worth to Total Assets	0.90:1
Current Ratio	1.5:1
Liquid Assets to Current Liability	1:1
Credit Sales to Total Sales	0.80:1
Average Collection Period	60 days

Assume 360 days in a year

You are required to complete the following:

Balance Sheet of Moon Ltd.

Liabilities	Rs.	Assets	Rs.
Net Worth		Fixed Assets	
Current Liabilities		Stock	
		Debtors	
		Cash	
Total Liabilities		Total Assets	

C. The earning per share of a company is Rs. 10 and the rate of capitalisation applicable to it is 10 per cent. The company has three options of paying dividend i.e. (i) 50%, (ii) 75% and (iii) 100%.

CALCULATE the market price of the share as per Walter's model if it can earn a return of (a) 15, (b) 10 and (c) 5 per cent on its retained earnings.

D. Sun Ltd. is considering two financing plans. Details of which are as under:

a. Fund Rs. requirement – Rs. 100 Lakhs
b. Financial Plan

Plan	Equity	Debt
I	100%	-
II	25%	75%

c. Cost of debt – 12% p.a.
d. Tax Rate – 30%
e. Equity Share Rs. 10 each, issued at a premium of Rs. 15 per share
f. Expected Earnings before Interest and Taxes (EBIT) Rs. 40 Lakhs

You are required to compute:

(i) EPS in each of the plan
(ii) The Financial Break Even Point
(iii) Indifference point between Plan I and II

Q.2 **(10 MARKS)**

A&R Ltd. has undertaken a project which has an initial investment of Rs.2,000 lakhs in plant & machinery and Rs.800 lakhs for working capital. The plant & machinery would have a salvage value of Rs. 474.61 lakhs at the end of the fifth year. The plant & machinery would depreciate at the rate of 25% p.a. on WDV method. The other details of the project for the five year period are as follows:

Sales	10,00,000 units p.a.
Selling price per unit	Rs.500
Variable cost	50% of selling price
Fixed overheads (excluding depreciation)	Rs.300 lakh p.a.
Corporate tax rate	35%
Rate of interest on bank loan	12%
After tax required rate of return	15%

Required:

(i) CACULATE net present value (NPV) of the project and DETERMINE the viability of the project.

(ii) DETERMINE the sensitivity of project's NPV under each of the following condition:

a. Decrease in selling price by 10%;

b. Increase in cost of plant & machinery by 10%.

PV factor	Year-1	Year-2	Year-3	Year-4	Year-5
12%	0.892	0.797	0.711	0.635	0.567
15%	0.869	0.756	0.657	0.571	0.497

Q. 3 **(10 MARKS)**

Gogo Ltd. plans to sell 10,000 units per month. Following information is available.

1.

Particulars	Rs. (Per Unit)
Direct Material	40
Direct Wages	20
Overheads (including Depreciation Rs.5 per unit)	35
Selling price	120

2. Duration of Operating Cycle

Raw Material	1½ months
Finished goods	1 month
Work in Progress	1 month
Debtors	2 months
Creditors	3 months

3. Cash Balance will be 20% of Current Liability.

Compute amount of Working Capital requirement.

Q. 4 **(10 MARKS)**

The following information relates to Shakaal Ltd.

Variable Cost	= Rs.10 lakh
Profit Volume Ratio	= 80%
Fixed Cost (including interest)	= Rs.25 lakh
Tax Rate	= 40%
10% Preference Share Capital	= Rs.10 lakh
Equity Share Capital (Face Value: Rs.10)	= Rs.40 lakh
20% Debentures	= Rs.25 lakh

Compute:

(1) EPS

(2) Degree of Operating Leverage

(3) Degree of Financial Leverage

(4) Degree of Combined Leverage

(5) Financial Break Even Point.

Q. 5 **(10 MARKS)**

The following information is available in respect of Darinda Ltd.

(1)

Months	Material Purchased	Sales	Wages & Other Exps.
January	20,000	30,000	9,000
February	22,000	33,000	10,000
March	24,000	36,000	10,500
April	26,000	39,000	11,000
May	28,000	42,000	11,500
June	30,000	45,000	12,000
July	32,000	48,000	12,500
August	34,000	51,000	13,000

(2) Credit allowed to customers is 3 months and credit received from suppliers is 2 months.

(3) Wages and other expenses are paid on accrual.

(4) Material purchased in specific month will be opening stock of next month.

(5) Cash Balance in beginning of April is Rs.10,000.

Prepare:

(1) Cash Budget for period April to July.

(2) Profit and loss forecast for April to July.

Q. 6 **(3 + 3 + 4 = 10 MARKS)**

A. EXPLAIN in brief the Pecking order theory.

B. "Financial Leverage is a double-edged sword" DISCUSS

Or

Explain briefly the features of External Commercial Borrowings

C. "The profit maximization is not an operationally feasible criterion." IDENTIFY.

PART – II

ECONOMICS FOR FINANCE

Q. 7 is compulsory and attempt any three out of remaining four questions.

Q.7 **(a)** Explain Voluntary Export restraint **(2 Marks)**

(b) Explain Limitations in Calculating National Income **(3 Marks)**

(c) Explain Allocation Function & Redistribution Function. **(3 Marks)**

(d) Short Note on Crowding out **(2 Marks)**

Q.8 **(a)** (i) What is tragedy of Commons? **(3 Marks)**

(i) Explain Marginal Standing facility **(2 Marks)**

(b) Estimation of National Income by Value Addition Suppose only the following transactions take place in an economy:

- Industry A imports goods worth Rs. 100. It sells goods worth Rs. 400 to Industry B, goods worth Rs. 200 to Industry C, and goods worth Rs.1,000 for Private Consumption.
- Industry B sells goods worth Rs. 500 to Industry C and goods worth Rs. 800 for Private Consumption.
- Industry C sell goods worth Rs. 600 to Private Consumption and Export goods valued at Rs. 500.
- Depreciation Coast during the year is Rs. 100,
- Government realizes Indirect taxes of the valued of Rs. 100. Subsidies paid by Government is Rs. 50.

Calculate the following with the help of Net Value Added Method:
(a) GNP (MP) (b) GNP (FC) (c) NNP (MP) and (d) NNP (FC) **(5 Marks)**

Q.9 (a) (i) Explain merits and demerits of international trade. **(3 Marks)**

(ii) Suppose initial deposit: Rs 5200.
(a) Calculate Credit Multiplier if RRR= 0.015
(b) Calculate Credit creation if RRR = 0.06 **(2 Marks)**

(b) (i) Explain Quasi Public goods **(3 Marks)**

(ii) Explain liquidity Adjustment facility. **(2 Marks)**

Q.10 (a) (i) Limitations of Fiscal policy **(3 Marks)**

(ii) Explain Pump priming **(2 Marks)**

(b) (i) State the Objectives of Monetary Policy **(3 Marks)**

(ii) Explain Personal income. **(2 Marks)**

Q.11 (a) (i) Explain Milton Friedman theory of Money demand **(3 Marks)**

(ii) Define Ad Valorem tariff **(2 Marks)**

(b) (i) Explain impact of currency depreciation on domestic economy. **(3 Marks)**

(ii) Explain features of Private goods **(2 Marks)**

OR

(ii) Explain Foreign portfolio investment **(2 Marks)**