CA INTERMEDIATE

Test Code – JKN_FME_12
(Date :11/10/2020)

(Marks - 100)

SECTION -A

Question No. 1 is compulsory.

Attempt any four questions from the remaining five questions.

Maximum Marks – 60

QUESTION NO.1 **(5 MARKS X 4 = 20 MARKS)**

A. 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

B. With the help of following figures **CALCULATE the market price of a share** of a company by using:

(i) Walter's formula

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

Earnings per share (EPS)	Rs. 10
Dividend per share (DPS)	Rs. 6
Cost of capital (k)	20%
Internal rate of return on investment	25%
Retention Ratio	60%

C. Annual sales of a company is Rs. 60,00,000.Sales to variable cost ratio is 150 per cent and Fixed cost other than interest is Rs. 5,00,000 per annum. Company has 11 per cent debentures of Rs. 30,00,000.

You are required to calculate the operating, Financial and combined leverage of the company.

D. **Determine the risk adjusted net present value** of the following projects*:*

	X	Y	Z
Net cash outlays (Rs.)	2,10,000	1,20,000	1,00,000
Project life	5 years	5 years	5 years

Annual Cash inflow (Rs.)	70,000	42,000	30,000
Coefficient of variation	1.2	0.8	0.4

The Company selects the risk-adjusted rate of discount on the basis of the coefficient of variation:

Coefficient of Variation	Risk-Adjusted Rate of Return	P.V. Factor 1 to 5 years At risk adjusted rate of discount
0.0	10%	3.791
0.4	12%	3.605
0.8	14%	3.433
1.2	16%	3.274
1.6	18%	3.127
2.0	22%	2.864
More than 2.0	25%	2.689

QUESTION NO.2

A. A company intends to produce a new product priced at Rs.200 per unit with expected monthly sales 5000 units. Variable cost will be Rs.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 Rs.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?

(6 Marks)

B. EXPLAIN the basics of debt securitisation process. **(4 Marks)**

QUESTION NO.3 **(10 MARKS)**

Khalnayak Ltd. is considering following 6 proposals.

Project	Cost	PVCI	NPV
1	2,000	2,420	-
2	-	15,120	3,120
3	10,000	11,700	-
4	4,000	-	520
5	5,000	6,000	-
6	-	1,190	190

Which projects would you advice if the total funds available are Rs.16,000?

QUESTION NO.4 **(10 MARKS)**

Best of Luck Ltd., a profit making company, has a paid-up capital of Rs. 100 lakhs consisting of 10 lakhs ordinary shares of Rs. 10 each. Currently, it is earning an annual pre-tax profit of Rs. 60 lakhs. The company's shares are listed and are quoted in the range of Rs. 50 to Rs. 80.The management wants to diversify production and has approved a project which will cost Rs. 50 lakhs and which is expected to yield a pre-tax income of Rs. 40 lakhs per annum. To raise this additional capital, the following options are under consideration of the management:

(a) To issue equity share capital for the entire additional amount. It is expected that the new shares (face value of Rs. 10) can be sold at a premium of Rs. 15.

(b) To issue 16% non-convertible debentures of Rs. 100 each for the entire amount.

(c) To issue equity capital for Rs. 25 lakhs (face value of Rs. 10) and 16% non-convertible debentures for the balance amount. In this case, the company can issue shares at a premium of Rs. 40 each.

You are required to advise the management as to how the additional capital can be raised, keeping in mind that the management wants to maximise the earnings per share to maintain its goodwill. The company is paying income tax at 50%.

QUESTION NO.5 **(10 MARKS)**

The following data relates to four Firms -

Firm	**A**	**B**	**C**	**D**
EBIT	Rs.2,00,000	Rs.3,00,000	Rs.5,00,000	Rs.6,00,000
Interest	Rs.20,000	Rs.60,000	Rs.2,00,000	Rs.2,40,000
Equity Capitalization Rate	12%	16%	15%	18%

Assuming that there are no taxes and Interest Rate on Debt is 10%, determine the Value and WACC of each Firm using the Net Income Approach. What happens if Firm A borrows Rs. 2 Lakhs at 10% to repay Equity Capital ?

QUESTION NO.6

A. EXPLAIN as to how the wealth maximisation objective is superior to the profit maximisation objective What is the cost of these sources? **(4 MARKS)**

B. DESCRIBE Bridge Finance. **(4 MARKS)**

C. EXPLAIN Concentration Banking **(2 MARKS)**

SECTION –B

Question 7 is compulsory question.

Attempt any three from the remaining four questions

7. (a) Calculate National Income by Value Added Method with the help of following data-

Particulars	Rs. (in crore)
Sales	700
Opening stock	500
Intermediate Consumption	350
Closing Stock	400
Net Factor Income from Abroad	30
Depreciation	150
Excise Tax	110
Subsidies	50

(3 Marks)

(b) Define Social Good? What is the similarity and dissimilarity between Social Goods and Common Pool Resources? **(2 Marks)**

(c) Why Marginal Standing Facility (MSF) would be the last resort for banks? **(3 Marks)**

(d) Assume that 15% specific tariff is levied by the government on every sunglass which is imported into India, and if 2000 sunglasses are imported and price of each sunglass is Rs.1000/- , then find out the amount of total tariff revenue collected by the government? **(2 Marks)**

8. (a) (i) 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?

(3 Marks)

(ii) Compare transaction demand for money according to Keynes and Baumol & Tobin? **(2 Marks)**

(b) How does trade increase economic efficiency and which view argued that trade is a zero- sum game and how? **(3 Marks)**

(c) Is country like India unable to estimate their National Income wholly by one method? Give comments **(2 Marks)**

9. (a) How does the government intervene to minimize market power? **(5 Marks)**

(b) Define the deposit expansion multiplier? How it is calculated? **(3 Marks)**

(c) Suppose MPC is 0.8 and it is planned to increase National Income by Rs. 3000 Crore then how much increase in investment is required to fulfill this target? **(2 Marks)**

10. (a) What is meant by foreign exchange market ? What are the roles played by the participants in the foreign exchange market ? **(5 Marks)**

(b) Define 'Net Factor Income from Abroad' **(3 Marks)**

(c) Determine the government spending multiplier when there is an increase of Rs.100 crore in government spending and MPC is 0.75 ? And also find out the net effect of Rs. 100 crore spending? **(2 Marks)**

11. (a) (i) What are the main advantages of fixed rate regime in an open economy? **(3 Marks)**

(ii) How the autonomous expenditure multiplier is stated in four sector model? **(2 Marks)**

(b) (i) What is non- discretionary fiscal policy and how it occurs? **(3 Marks)**

(ii) Explain the concept of demand for money? **(2 Marks)**

Or

Define the term Regional Trade Agreement (RTAs)? **(2 Marks)**