

Test Paper 8

National Test Series

Test Instructions:

1. Please write your solution in new sheets of paper. It is advisable to create a separate notebook for writing test.
2. You have to give the test between 2 PM to 5 PM .
3. Suppose, if you are not able to complete the test (or any part of the test) in prescribed time, then please draw line in the sheet whenever the prescribed time is getting over and clearly mention "Time Over". But keep writing the remaining part we will check that. We want to check your accuracy.
4. Include all rough work in your answer sheet only. Don't use separate pages for rough work.
5. Start different part of the test paper in new pages. Properly mention **page number** on your every answer sheet.
6. For instruction on how to submit the test please watch <http://bit.ly/CA Inter Test>
7. Send us your answer sheets by way of email on paper@konceptca.com.
8. Make sure pictures are sharp, also make sure that you send single email for the whole paper after converting them into PDF for instructions how to make PDF watch <https://youtu.be/q2hzXyLYe0o>
9. If your PDF size is greater than 25 MB, then please compress it using this link- <https://pdfcompressor.com/>
10. Email received after **25th May evening 7 PM** will not be assessed.
11. Do mention your KE-ID, name of the test series you are attempting for and name of the test in your answer sheet as well as in the subject of the mail while submitting your answer sheet.

We will share your results and score only if you are able to send the answer sheets by **25th May evening 7 PM**

Subject: Financial Management & Economics for Finance.

Marks: 100 Marks

Duration: 3 Hrs.

Section A – Financial Management

Question 1 is compulsory.

Answer any four from remaining five questions.

Question 1.

(A) A project requiring an investment of ₹10,00,000 and it yields profit after tax and depreciation which is as follows:

Years	Profit after tax and depreciation (₹)
1	50,000
2	75,000
3	1,25,000
4	1,30,000
5	80,000
Total	4,60,000

Suppose further that at the end of the 5th year, the plant and machinery of the project can be sold for ₹80,000. Determine Average Rate of Return.

(5 Marks)

(B) Mr. Mehra had purchased a share of Alpha Limited for ₹ 1,000. He received dividend for a period of five years at the rate of 10 percent. At the end of the fifth year, he sold the share of Alpha Limited for ₹ 1,128. You are required to compute the cost of equity as per realized yield approach.

(5 Marks)

(C) The following figures are collected from the annual report of XYZ Ltd.:

	₹
Net Profit	₹ 30 lakhs
Outstanding 12% preference shares	₹ 100 lakhs
No. of equity shares	3 lakhs
Return on Investment	20%
Cost of capital i.e. (Ke)	16%

Calculate price per share using Gordon's Model when dividend pay-out is (i) 25%; (ii) 50% and (iii) 100%.

(5 Marks)

(D) The accountant of Moon Ltd. has reported the following data:

Gross profit	₹ 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	₹	Assets	₹
Net Worth		Fixed Assets	
Current Liabilities		Stock	
		Debtors	
		Cash	
Total Liabilities		Total Assets	

(5 Marks)

Question 2.

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
Source of Funds:		
Shareholders' Funds	2,500	2,500
Loan Funds	3,500	3,000
	6,000	5,500
Application 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	(20,850)	(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-

- Inventory turnover ratio
- Financial leverage
- Return on Capital Employed (ROCE)
- Return on Equity (ROE)

(e) Average Collection Period

(Take 1 year = 365 days)

(10 Marks)

Question 3.

Shahji Steels Limited requires ₹ 25, 00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of ₹ 5, 00,000. While deciding about the financial plan, the company considers the objective of maximizing earnings per share. It has three alternatives to finance the project - by raising debt of ₹ 2, 50,000 or ₹ 10, 00,000 or ₹ 15, 00,000 and the balance, in each case, by issuing equity shares. The company's share is currently selling at ₹ 150, but is expected to decline to ₹ 125 in case the funds are borrowed in excess of ₹ 10, 00,000. The funds can be borrowed at the rate of 10 percent upto ₹ 2, 50,000, at 15 percent over ₹ 2, 50,000 and upto ₹ 10, 00,000 and at 20 percent over ₹ 10, 00,000. The tax rate applicable to the company is 50 percent. Which form of financing should the company choose?

(10 Marks)

Question 4.

X Ltd is considering its New Product 'with the following details

Sr. No.	Particulars	Figures
1	Initial capital cost	₹ 400 Cr
2	Annual unit sales	₹ 5 Cr
3	Selling price per unit	₹ 100
4	Variable cost per unit	₹ 50
5	Fixed costs per year	₹ 50 Cr
6	Discount Rate	6%

1. Calculate the NPV of the project.
2. Find the impact on the project's NPV of a 2.5 per cent adverse variance in each variable. Which variable is having maximum effect.

(10 Marks)

Question 5.

X Ltd. is considering to select a machine out of two mutually exclusive machines. The company's cost of capital is 15 per cent and corporate tax rate is 30 per cent. Other information relating to both machines is as follows:

	Machine - I	Machine - II
Cost of Machine	30,00,000	40,00,000
Expected Life	10 years	10 years
Annual Income(Before Tax and Depreciation)	12,50,000	17,50,000

Depreciation is to be charged on straight line basis:

You are required to CALCULATE:

- (i) Discounted Pay Back Period
- (ii) Net Present Value
- (iii) Profitability Index

The present value factors of Re.1 @ 15% are as follows:

Year	01	02	03	04	05
PV factor @ 15%	0.870	0.756	0.658	0.572	0.497

(10 Marks)

Question 6.

Day Ltd., a newly formed company has applied to the Private Bank for the first time for financing its Working Capital Requirements. The following information are available about the projections for the current year:

Estimated Level of Activity	Completed Units of Production 31200 plus unit of work in progress 12000
Raw Material Cost	₹ 40 per unit
Direct Wages Cost	₹ 15 per unit
Overhead	₹ 40 per unit (inclusive of Depreciation `10 per unit)
Selling Price	₹ 130 per unit
Raw Material in Stock	Average 30 days consumption
Work in Progress Stock	Material 100% and Conversion Cost 50%
Finished Goods Stock	24000 Units
Credit Allowed by the supplier	30 days
Credit Allowed to Purchasers	60 days
Direct Wages (Lag in payment)	15 days
Expected Cash Balance	₹ 2,00,000

Assume that production is carried on evenly throughout the year (360 days) and wages and overheads accrue similarly. All sales are on the credit basis. You are required to calculate the Net Working Capital Requirement on Cash Cost Basis.

(10 Marks)

USE CODE

AUG20

SINGLE SUBJECT
₹ 5,900

SINGLE GROUP
₹ 8,850

BOTH GROUPS
₹ 17,700

*EXCLUSIVE OFFER FOR CA INTERMEDIATE STUDENTS APPEARING IN AUGUST 2020. ON SINGLE GROUP AND BOTH GROUPS VIEWS ARE UNLIMITED BUT ON SINGLE SUBJECT VIEWS ARE LIMITED TO 1.5 TIMES

NOV20

SINGLE SUBJECT
₹ 5,900

SINGLE GROUP
₹ 11,800

BOTH GROUPS
₹ 21,240

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 **CONCEPT**
EDUCATION

Section B – Economics for Finance

Question 7 is compulsory.

Answer any three from remaining four questions

Question 7.

(A) Explain how decline in interest rates influence economic activity by changing the incentives for households and businesses to save or invest?

(3 Marks)

(B) Assume a two sector economy. If consumption function is $C=1,000+0.6Y$, and $S = 6,000$, compute Equilibrium level of national income. Also compute consumption expenditure and investment at that level.

(2 Marks)

(C) Define the market failure. Why do markets fail?

(3 Marks)

(D) What is the objective of policies requiring foreign entities to procure local contents?

(2 Marks)

Question 8.

(A) Suppose in an economy:

Consumption Function	$C = 150 + 0.75 Y_d$
Investment spending	$I = 100$
Government spending	$G = 115$
Tax	$T_x = 20 + 0.20 Y$
Transfer Payments	$Tr = 40$
Exports	$X = 35$
Imports	$M = 15 + 0.1 Y$

Where, Y and Y_d are National Income and Personal Disposable Income respectively. All figures are in rupees. Find:

- (i) The equilibrium level of National Income
- (ii) Consumption at equilibrium level
- (iii) Net Exports at equilibrium level

(5 Marks)

(B) Describe the different determinants of money supply in a country

(5 Marks)

Question 9.

(A) Analyze what should be the tax policy during recession and depression?

(5 Marks)

(B) Define Foreign Direct Investment (FDI). Mention two arguments made in favor of FDI to developing economies like India?

(5 Marks)

Question 10.

(A) Fiscal policy plays a significant role in reducing inequality and achieving equity and social justice. Do you agree? Substantiate your answer with examples.

(5 Marks)

(B) Explain the function of SLR? What are the eligible securities of SLR?

(5 Marks)

Question 11.

(A) Define multiplier. What is the range of values it can take?

(5 Marks)

(B) What are the major functions of the WTO? What do you understand by the term 'Most-favored-nation' (MFN)?

(5 Marks)



BOTH GROUPS ₹ 17,700

BOTH GROUPS ₹ 21,240

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