

Roll No.

Total No. of Questions – 11

Time Allowed – 3 Hours

Total No. of Printed Pages – 12

Maximum Marks – 100

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Answers to questions are to be given only in English except in case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

SECTION – A

Question No. 1 is compulsory.

Candidates are also required to answer any **four** questions from the remaining **five** questions.

Working notes should form part of the respective answers.

All the calculations should be done upto 3 decimal places.

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credit
Avg. debtors = 1.5

(2)

360
12

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1. (a) Current annual sale of SKD Ltd. is ₹ 360 lakhs. It's directors are of the opinion that company's current expenditure on receivables management is too high and with a view to reduce the expenditure they are considering following two new alternate credit policies :

5

Avg $\times (100)$
12

	Policy X	Policy Y
Average collection period	1.5 months	1 month
% of default	2%	1%
Annual collection expenditure	₹ 12 lakh	₹ 20 lakh

Selling price per unit of product is ₹ 150. Total cost per unit is ₹ 120. Current credit terms are 2 months and percentage of default is 3%. Current annual collection expenditure is ₹ 8 lakh. Required rate of return on investment of SKD Ltd. is 20%. Determine which credit policy SKD Ltd. should follow.

- (b) The details about two companies R Ltd. and S Ltd. having same operating risk are given below :

5

Particulars	R Ltd.	S Ltd.
Profit before interest and tax EBIT	₹ 10 lakhs	₹ 10 lakhs
Equity share capital ₹ 10 each	₹ 17 lakhs	₹ 50 lakhs
Long term borrowings @ 10%	₹ 33 lakhs	—
Cost of Equity (K_e)	18%	15%

You are required to :

- Calculate the value of equity of both the companies on the basis of M.M. Approach without tax.
- Calculate the Total Value of both the companies on the basis of M.M. Approach without tax.

EBIT / K_e

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(3)

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- (c) K.P. Ltd. is investing ₹ 50 lakhs in a project. The life of the project is 4 years. Risk free rate of return is 6% and risk premium is 6%, other information is as under :

5

$$R_F = 6\%$$

$$R_F + b(R_M)$$

Sales of 1 st year	₹ 50 lakhs
Sales of 2 nd year	₹ 60 lakhs
Sales of 3 rd year	₹ 70 lakhs
Sales of 4 th year	₹ 80 lakhs
P/V Ratio (same in all the years)	50%
Fixed Cost (Excluding Depreciation) of 1 st year	₹ 10 lakhs
Fixed Cost (Excluding Depreciation) of 2 nd year	₹ 12 lakhs
Fixed Cost (Excluding Depreciation) of 3 rd year	₹ 14 lakhs
Fixed Cost (Excluding Depreciation) of 4 th year	₹ 16 lakhs

Inflows
outflows

Ignoring interest and taxes,

You are required to calculate NPV of given project on the basis of

Risk Adjusted Discount Rate.

$$IRP = R_F + \frac{NPV(L)}{NPV(L) - NPV(H)} \times (R_M - R_F)$$

Discount factor @ 6% and 12% are as under :-

Year	1	2	3	4
Discount Factor @ 6%	0.943	0.890	0.840	0.792
Discount Factor @ 12%	0.893	0.797	0.712	0.636

inflow

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inflows $\times$ Risk factor

P.T.O.

(4)

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Marks

5

(d) The following information relates to LMN Ltd.

Earning of the company	₹ 30,00,000
Dividend pay-out ratio $\frac{DPS}{EPS}$	60%
No. of shares outstanding	5,00,000
Rate of return on investment	15%
Equity capitalized rate	13%

Required :

- Determine what would be the market value per share as per Walter's model.
- Compute optimum dividend pay-out ratio according to Walter's model and the market value of company's share at that pay-out ratio.

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Following are the information of TT Ltd :

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Particulars	
Earnings per share	₹ 10
Dividend per share	₹ 6
Expected growth rate in Dividend	6%
Current market price per share	₹ 120
Tax Rate	30%
Requirement of Additional Finance	₹ 30 lakhs
Debt Equity Ratio (For additional finance)	2 : 1
Cost of Debt	
0 – 5,00,000	10%
5,00,001 – 10,00,000	9%
Above 10,00,000	8%

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$$\frac{DPS}{V_e} + \frac{\left(\frac{D}{V_e}\right) \cdot (2V_e - 2D)}{V_e}$$

$$V_e = \frac{D}{NP} + g$$

$$EPS = 20$$

3 methods

(5)

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Assuming that there is no Reserve and Surplus available in TT Ltd.

You are required to :

- Find the pattern of finance for additional requirement
- Calculate post tax average cost of additional debt
- Calculate cost of equity
- Calculate the overall weighted average after tax cost of additional finance.

Masco Limited has furnished the following ratios and information relating to the year ended 31st March 2021 :

Sales	₹ 75,00,000
Return on net worth	25%
Rate of income tax	50%
Share capital to reserves	6 : 4
Current ratio	2.5
Net profit to sales (After Income Tax)	6.50%
Inventory turnover (based on cost of goods sold)	12
Cost of goods sold	₹ 22,50,000
Interest on debentures	₹ 75,000
Receivables (includes debtors ₹ 1,25,000)	₹ 2,00,000
Payables	₹ 2,50,000
Bank Overdraft	₹ 1,50,000

You are required to :

- Calculate the operating expenses for the year ended 31st March, 2021.
- Prepare a balance sheet as on 31st March in the following format :

DoB = 90

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(6)

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Liabilities	₹	Assets	₹
Share Capital		Fixed Assets	
Reserves and Surplus		Current Assets	
15% Debentures		Stock	
Payables		Receivables	
Bank Term Loan		Cash	

4. An existing company has a machine which has been in operation for two years, its estimated remaining useful life is 4 years with no residual value in the end. Its current market value is ₹ 3 lakhs. The management is considering a proposal to purchase an improved model of a machine which gives increase output. The details are as under :

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Particulars	Existing Machine	New Machine
Purchase Price	₹ 6,00,000	₹ 10,00,000
Estimated Life	6 years	4 years
Residual Value	0	0
Annual Operating days	300	300
Operating hours per day	6	6
Selling price per unit	₹ 10	₹ 10
Material cost per unit	₹ 2	₹ 2
Output per hour in units	20	40
Labour cost per hour	₹ 20	₹ 30
Fixed overhead per annum excluding depreciation	₹ 1,00,000	₹ 60,000
Working Capital	₹ 1,00,000	₹ 2,00,000
Income-tax rate	30%	30%

6 hrs x 300 days $\Rightarrow$ 1800 hrs x 4 $\Rightarrow$ 7200 hrs

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40 unit — 1 hr

7200 hrs

(7)

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Assuming that – cost of capital is 10% and the company uses written down value of depreciation @ 20% and it has several machines in 20% block.

Advice the management on the Replacement of Machine as per the NPV method.

The discounting factors table given below :

Discounting Factors	Year 1	Year 2	Year 3	Year 4
10%	0.909	0.826	0.751	0.683

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A company had the following balance sheet as on 31st March, 2021 :

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Liabilities	₹ in Crores	Assets	₹ in Crores
Equity Share Capital (75 lakhs Shares of ₹ 10 each)	7.50	Building	12.50
Reserves and Surplus	1.50	Machinery	6.25
15% Debentures	15.00	Current Assets	
Current Liabilities	6.00	Stock	3.00
		Debtors	3.25
		Bank Balance	5.00
	30.00		30.00

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P.T.O.

(8)

BMF

Marks

The additional information given is as under :

Fixed cost per annum (excluding interest)	₹ 6 crores
Variable operating cost ratio	60%
Total assets turnover ratio	2.5
Income-tax rate	40%

Sales
Total Assets.

Calculate the following and comment :

- (i) Earnings per share
- (ii) Operating Leverage
- (iii) Financial Leverage
- (iv) Combined Leverage

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6. (a) Explain in brief the forms of Post Shipment Finance. 4
- (b) Describe the salient features of FORFEITING. 4
- (c) List out the steps to be followed by the manager to measure and maximize the Shareholder's Wealth. 2

OR

- Explain the limitations of Average Rate of Return. 2

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(9)

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SECTION – B

Question No. 7 is compulsory.

Answer any **three** questions from the rest.

Working notes should form part of the respective answer.

$$M_3 = M_1 + \text{Net time deposit.}$$

7. (a) Explain the measurement of Net Domestic Product at market price. 2
- N
- (b) In the context of India, measure money supply (In crores of) 3
- (M3) as per guidelines published by Reserve Bank of India. ₹
- C + DD + TD
- (i) Currency notes and coins with the public 24,637.20
- (ii) Demand deposits of Banks 2,01,589.60
- (iii) Net time deposits with post office saving accounts 28,116.40
- (iv) Other deposits with Reserve Bank 420.10
- (v) Saving deposits with post office saving banks 415.25
- (c) Justify the role of public debt as an instrument of Fiscal Policy. 2
- (d) Compare and contrast between devaluation and depreciation in the context of exchange rate. 3

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GDPMP 2
(10)

Gross fixed
Private final
cap formation
Net Export.

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Marks

8. (a) Calculate the national income using income and expenditure method 3+2
from the data given below :

Items :

₹ in crores

(i) Government purchase of goods and services	7,000
(ii) Indirect tax	9,000
(iii) Subsidies	1,800
(iv) Gross business fixed capital	13,000
(v) Inventory Investment	3,000
(vi) Consumption of fixed capital	4,000
(vii) Personal consumption expenditure	51,000
(viii) Export of goods and services	4,800
(ix) Net factor income from abroad	(-) 300
(x) Imports of goods and services	5,600
(xi) Mixed income of self employed	28,000
(xii) Rent, interest and profits	10,000
(xiii) Compensation of employees	24,000

- (b) (i) Describe various types of externalities which cause market failure. 3
(ii) Mention any four sectors in which foreign direct investment is prohibited. 2

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9. (a) (i) Justify the following statements in the light of holding cash balance. 3
- (1) For investment in interest bearing assets
 - (2) In the prevailing scenario, usually all transactions are made through online or E-banking.
 - (3) Money is a unique store of value
- (ii) Briefly describe any two advantages of fixed exchange rate regime in the context of open economy. 2
- (b) (i) Define Common Access Resources. Why they are over-used ? Explain. 2
- (ii) Explain in brief any four effects of Tariffs on importing and exporting countries. 3
10. (a) (i) Fisher's equation of exchange is : $MV = PT$. If velocity (V) = 25, Price (P) 110.5 and volume of transaction (T) = 200 billion. Calculate : 3
- $Supply \times V = P \times volume$
- (1) Total money supply (m)
 - (2) Effect on M when velocity (V) increases to 75
 - (3) Velocity (V) when the volume of transactions increases to 325 billion.
- (ii) Briefly explain the advantages of two key concepts of New Trade theories to countries when importing goods to compete with products from the home country. 2

(12)

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- (b) (i) Mention any three key objectives of World Trade Organisation. 3
- (ii) Describe the differences between Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF). 2

11. (a) (i) The equation of 'consumption function' of an economy is as follows : 3

$$C = ₹ 450 + 0.70 y$$

S24-6

You are required to compute the following :

- (1) Consumption when disposable income (y) is ₹ 3,500 and ₹ 5,800.
- (2) Saving when disposable income (y) is ₹ 3,500 and ₹ 5,500.
- (3) Amount induced when disposable income is ₹ 3,200.
- (ii) Distinguish between horizontal, vertical and conglomerate type of foreign investments. 2
- (b) (i) Explain the concept of 'Voluntary Export Restraints'. Under which circumstances exporters commit to voluntary export restraint ? Discuss. 3
- (ii) Mention any four arguments made in favour of Foreign Direct Investment to developing economy like India. 2

OR

Explain the concept of Real Exchange Rate.

2

Real exchange = Nominal

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Export