IPCE (New Syllabus)
Paper - 8
Financial Management
and Economics for Finance

Roll No. ....

DEC 2021

Total No. of Questions – 11 | Total No. of Printed Pages – 23

Time Allowed – 3 Hours | Maximum Marks – 100

NGZ-H

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 **Marks : 60**

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.

Marks

1. (a) A factoring firm has offered a company to buy it's accounts receivables. **5**

The relevant information is given below.

(i) The current average collection period for the company's debt is 80 days and ½ % of debtors default. The factor has agreed to pay over money due, to the company after 60 days and it will suffer all the losses of bad debts also.

(ii) Factor will charge commission @2%.

 Marks

(iii) The company spends ₹ 1,00,000 p.a. on administration of debtor. These are avoidable cost.

(iv) Annual credit sales are ₹ 90 lakhs. Total variable costs is 80% of sales. The company's cost of borrowing is 15% per annum. Assume 365 days in a year.

Should the company enter into agreement with factoring firm ?

(b) Book value of capital structure of B Ltd. is as follows : **5**

Sources	Amount
12%, 6,000 Debentures @ ₹ 100 each	₹ 6,00,000
Retained earnings	₹ 4,50,000
4,500 Equity shares @ ₹ 100 each	₹ 4,50,000
	₹ 15,00,000

Currently, the market value of debenture is ₹ 110 per debenture and equity share is ₹ 180 per share. The expected rate of return to equity shareholder is 24% p. a. Company is paying tax @30%.

Calculate WACC on the basis of market value weights.

(c) X Ltd. is a multinational company. Current market price per share is ₹ 2,185. During the F.Y. 2020-21, the company paid ₹ 140 as dividend per share. The company is expected to grow @12% p.a. for next four years, then 5% p.a. for an indefinite period. Expected rate of return of shareholders is 18% p.a.. **5**

(i) Find out intrinsic value per share.

(ii) State whether shares are overpriced or underpriced.

Year	1	2	3	4	5
Discounting Factor @ 18%	0.847	0.718	0.608	0.515	0.436

Marks

(d) A garment trader is preparing cash forecast for first three months of calendar year 2021. His estimated sales for the forecasted periods are as below : **5**

	January (₹ '000)	February(₹ '000)	March(₹ '000)
Total sales	**600**	**600**	**800**

(i) The trader sells directly to public against cash payments and to other entities on credit. Credit sales are expected to be four times the value of direct sales to public. He expects 15% customers to pay in the month in which credit sales are made, 25% to pay in the next month and 58% to pay in the next to next month. The outstanding balance is expected to be written off.

(ii) Purchases of goods are made in the month prior to sales and it amounts to 90% of sales and are made on credit. Payments of these occur in the month after the purchase. No inventories of goods are held.

(iii) Cash balance as on 1st January, 2021 is ₹ 50,000.

(iv) Actual sales for the last two months of calendar year 2020 are as below :

	November (₹ '000)	December (₹ '000)
Total sales	**640**	**880**

You are required to prepare a monthly cash budget for the three months from January to March, 2021.

Marks

2. Following are the data in respect of ABC Industries for the year ended 31st March, 2021 : **10**

Debt to Total assets ratio	:	0.40
Long-term debts to equity ratio	:	30%
Gross profit margin on sales	:	20%
Accounts receivables period	:	36 days
Quick ratio	:	0.9
Inventory holding period	:	55 days
Cost of goods sold	:	₹ 64,00,000

Liabilities	₹	Assets	₹
Equity Share Capital	20,00,000	Fixed assets	
Reserves & surplus		Inventories	
Long-term debts		Accounts receivable	
Accounts payable		Cash	
Total	**50,00,000**	**Total**	

Required :

Complete the Balance Sheet of ABC Industries as on 31st March, 2021.

All calculations should be in nearest Rupee. Assume 360 days in a year.

3. Earnings before interest and tax of a company are ₹ 4,50,000. Currently the company has 80,000 Equity shares of ₹ 10 each, retained earnings of ₹ 12,00,000. It pays annual interest of ₹ 1,20,000 on 12% Debentures. The company proposes to take up an expansion scheme for which it needs additional fund of ₹ 6,00,000. It is anticipated that after expansion, the company will be able to achieve the same return on investment as at present. It can raise fund either through debts at rate of 12% p.a. or by issuing Equity shares at par. Tax rate is 40%. **10**

Marks

Required :

Compute the earning per share if :

(i) The additional funds were raised through debts.

(ii) The additional funds were raised by issue of Equity shares.

Advise whether the company should go for expansion plan and which sources of finance should be preferred.

4. Stand Ltd is contemplating replacement of one of it's machines which has become outdated and inefficient. It's financial manager has prepared a report outlining two possible replacement machines. The details of each machine are as follows :- 10

	Machine 1	Machine 2
Initial investment	₹ 12,00,000	₹ 16,00,000
Estimated useful life	3 years	5 years
Residual value	₹ 1,20,000	₹ 1,00,000
Contribution per annum	₹ 11,60,000	₹ 12,00,000
Fixed maintenance costs per annum	₹ 40,000	₹ 80,000
Other fixed operating costs per annum	₹ 7,20,000	₹ 6,10,000

The maintenance costs are payable annually in advance. All other cash flows apart from the initial investment assumed to occur at the end of each year. Depreciation has been calculated by straight line method and has been included in other fixed operating costs. The expected cost of capital for this project is assumed as 12% p.a..

Required :

(i) Which machine is more beneficial, using Annualized Equivalent Approach ? Ignore tax.

(ii) Calculate the sensitivity of your recommendation in part (i) to changes in the contribution generated by machine 1.

Year	1	2	3	4	5	6
$PVIF_{0.12,t}$	0.893	0.797	0.712	0.636	0.567	0.507
$PVIFA_{0.12,t}$	0.893	1.690	2.402	3.038	3.605	4.112

5. Information of A Ltd. is given below : **10**

- Earnings after tax : 5% on sales
- Income tax rate : 50%
- Degree of Operating Leverage : 4 times
- 10% Debenture in capital structure : ₹ 3 lakhs
- Variable costs : ₹ 6 lakhs

Required :

(i) From the given data complete following statement :

Sales	XXXX
Less : Variable costs	₹ 6,00,000
Contribution	XXXX
Less : Fixed costs	XXXX
EBIT	XXXX
Less : Interest expenses	XXXX
EBT	XXXX
Less : Income tax	XXXX
EAT	XXXX

(ii) Calculate Financial Leverage and Combined Leverage.

(iii) Calculate the percentage change in earning per share, if sales increased by 5%.

Marks

6. (a) Write short notes on Bridge Finance and Clean Packing Credit. 4

(b) Distinguish between Scenario Analysis & Sensitivity Analysis. 4

(c) Explain in brief the phases of the evolution of financial management. 2

OR

Adjustment of risk is required in capital budgeting decision, give reasons for it. 2

Marks

SECTION – B

Marks : 40

Question No. 7 is compulsory.

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

Working notes should form part of the respective answers.

7. (a) The following information is given : 3

Particulars	Amount in (₹) Crore
Notes in Circulation	25,00,000
Circulation of Rupee Coins	26,000
Circulation of Small Coins	850
Cash on hand with Banks	95,000
Bankers' Deposits with RBI	4,500
Other Deposits with RBI	180
Total Post office Deposits	12,000
Time Deposits with Banks	15,000

You are required to compute :

(i) Currency with the Public; and

(ii) Reserve Money.

(b) The Nominal GDP and Real GDP of a country in the financial year 2018-19 were ₹ 1,500 crore and ₹ 1,200 crore respectively, you are required to calculate : 3

(i) GDP deflator in the financial year 2018-19 and comment.

(ii) Inflation rate in the financial year 2019-20 assuming GDP deflator rate in this year is 140 as compared to the year 2018-19.

Marks

(c) Explain the features of Contractionary Fiscal Policy. 2

(d) Describe the types of transactions in the forex-market and also distinguish between forward premium and forward discount. 2

8. (a) The following information is related to an economy : 5

Particulars	Amount in (₹) crore
Domestic Sales	3600
Opening Stock	800
Exports	1000
Depreciation	300
Closing Stock	200
Net indirect tax	400
Intermediate consumption	600
Net factor income from abroad	10

Calculate the followings :

(i) Gross Value of Output (GVO_{MP})

(ii) Gross Value Added (GVA_{MP})

(iii) Net Value Added (NVA_{MP})

(iv) Net Domestic Product (NDP_{FC})

(v) Net National Product (NNP_{FC})

Marks

(b) (i) Discuss the role of government interventions in minimizing the market power, 2

(ii) Calculate Narrow Money(M_1) from the following information : 3

	(₹ In Crore)
Currency with public	2,80,000
Demand Deposits with banks	4,00,000
Time Deposits with banks	3,40,000
Other deposits with RBI	5,80,000
Post Office Savings Deposits	90,000

9. (a) How is the nominal exchange rate determined ? Explain. 3

(b) Discuss the salient features of bilateral trade agreements. 2

(c) Calculate Money Multiplier with the help of following information : 3

Reserve Ratio (r) = 10%

Currency = ₹ 200 billion

Deposits = ₹ 400 billion

Excess Reserve = ₹ 800 million

(d) What do you mean about gross investment of a country ? 2

10. (a) (i) How does the fiscal policy redress the inequalities of income and wealth of a country ? 3

(ii) State the main objectives of World Trade Organisation (WTO). 2

(b) (i) Explain Friedman's Restatement of Quantity Theory with reference to demand for money ? 3

(ii) Discuss the meaning and consequences of negative production externalities. 2

Marks

11. (a) How is aggregate consumption function affected, if : 3

(i) An impending war is expected to result in shortage of goods and an adoption of a rationing system,

(ii) Increased cost for steel, oil etc are expected to result in higher prices for consumer goods, or

(iii) The leadership assures that economic policy is bringing the recession to an end.

(b) Discuss the three branch taxonomy of the role of Government in market economy. 3

(c) What is speculative motive for holding cash ? 2

(d) Discuss the non-technical measures adopted by the countries with reference to (i) Trade related investment measures; and (ii) Price control measures. 2

OR

Discuss the salient features of Escalated tariff. 2
