MOCK TEST PAPER

FINANCIAL MANAGEMENT AND ECONOMICS FOR FINANCE

Maximum Marks: 100 **Time Allowed: 3 Hours**

Topic cover in exam

Financial Management

Financial Analysis and Planning - Ratio Analysis

Management of Working Capital

Unit I: Introduction to Working Capital Management, Unit II: Treasury and Cash Management, Unit III: Management of Inventory, Unit IV: Management of Receivables, Unit V: Management of Payables (Creditors), Unit VI: Financing of Working Capital

Economics for Finance

Money Market

Unit I: The Concept of Money Demand : Important Theories, Unit II: The Concept of Money Supply, Unit III: Monetary Policy

International Trade

Unit IV: Exchange Rate and Its Economic Effects, Unit V: International Capital Movements

SECTION – A: FINANCIAL MANAGEMENT (60 Marks)

Answer all questions

Question 1.

Bita Limited manufactures used in the steel industry. The following information regarding the company is given for your consideration:

i. Expected level of production 9000 units per annum.

ii. Raw materials are expected to remain in store for an average of two months before issue to production.

iii. Work-in-progress (50 percent complete as to conversion cost) will approximate to 1/2 month's production.

iv. Finished goods remain in warehouse on an average for one month.

v. Credit allowed by suppliers is one month.·

vi. Two month's credit is normally allowed to debtors.

vii. A minimum cash balance of ₹ 67,500 is expected to be maintained.

viii. Cash sales are 75 percent less than the credit sales.

ix. Safety margin of 20 percent to cover unforeseen contingencies.

x. The production pattern is assumed to be even during the year.

xi. The cost structure for Bita Limited's product is as follows:

Raw Materials	(₹) 80 per unit
Direct Labour	(₹) 20 per unit
Overheads (including depreciation ₹ 20)	(₹) 80 per unit
Total Cost	(₹) 180 per unit
Profit	(₹) 20 per unit
Selling Price	(₹) 200 per unit

You are required to estimate the working capital requirement of Bita limited.

10 Marks

Question 2.

a. Suppose Growth Ltd. has been offered credit terms from its major supplier of 2/10, net 45. Hence the company has the choice of paying ₹ 10 per ₹ 100 or to invest ₹ 98 for an additional 35 days and eventually pay the supplier ₹ 100 per ₹ 100. The decision as to whether the discount should be accepted depends on the opportunity cost of investing ₹ 98 for 35 days. Analyse what should the company do?

5 Marks

b. SafeWater Ltd. is a distributor of water filters to retail stores. It buys its filters from several manufacturers. Filters are ordered in lot sizes of 1,000 and each order costs ₹ 40 to place. Demand from retail stores is 20,000 filters per month, and carrying cost is ₹ 0.10 a filter per month.

   i. Compute the optimal order quantity with respect to so many lot sizes?

   ii. Calculate the optimal order quantity if the carrying cost were ₹ 0.05 a filter per month?

   iii. Compute the optimal order quantity if ordering costs were ₹ 10?

5 Marks

Question 3.

From the following information relating to a departmental store, you are required to PREPARE for the three months ending 31st March, 2020:

a. Month-wise cash budget on receipts and payments basis; and

b. Statement of Sources and uses of funds for the three months period.

It is anticipated that the working capital & other account balances at 1st January, 2020 will be as follows:

	₹ in '000's
Cash in hand and at bank	545
Short term investments	300
Debtors	2,570
Stock	1,300
Trade creditors	2,110
Other creditors	200
Dividends payable	485
Tax due	320
Plant	800

Budgeted Profit Statement:			**₹ in '000's**
	January	**February**	**March**
Sales	2,100	1,800	1,700
Cost of sales	1,635	1,405	1,330
Gross Profit	465	395	370
Administrative, Selling and DistributionExpenses	315	270	255
Net Profit before tax	150	125	115

Budgeted balances at the end ofeach months:	**₹ in '000's**		
	31st Jan.	**29th Feb.**	**31st March**
Short term investments	700	---	200
Debtors	2,600	2,500	2,350
Stock	1,200	1,100	1,000
Trade creditors	2,000	1,950	1,900
Other creditors	200	200	200
Dividends payable	485	--	--
Tax due	320	320	320
Plant (depreciation ignored)	800	1,600	1,550

Depreciation amount to ₹ 60,000 is included in the budgeted expenditure for each month.

10 Marks

Question 4.

A company wants to follow a more prudent policy to improve its sales for the region which is ₹ 9 lakhs per annum at present, having an average collection period of 45 days. After certain researches, the management consultant of the company reveals the following information:

Credit Policy	Increase in collection period	Increase in sales	Present default anticipated
W	15 days	₹ 60,000	1.5%
X	30 days	₹ 90,000	2%
Y	45 days	₹ 1,50,000	3%
Z	70 days	₹ 2,10,000	4%

The selling price per unit is ₹ 3. Average cost per unit is ₹ 2.25 and variable costs per unit are ₹ 2. The current bad debt loss is 1%. Required return on additional investment is 20%. (Assume 360 days year)

Analyse which of the above policies would you recommend for adoption?

10 Marks

Question 5.

Following information has been provided from the books of Laxmi Pvt. Ltd. for the year ending on 31st March, 2020:

Net Working Capital	₹ 4,80,000
Bank overdraft	₹ 80,000
Fixed Assets to Proprietary ratio	0.75
Reserves and Surplus	₹ 3,20,000
Current ratio	2.5
Liquid ratio (Quick Ratio)	1.5

You are required to prepare a summarised Balance Sheet as at 31st March, 2020 assuming that there is no long term debt.

10 Marks

Question 6.

A company is considering its working capital investment and financial policies for the next year. Estimated fixed assets and current liabilities for the next year are ₹ 2.60 crores and ₹ 2.34 crores respectively. Estimated Sales and EBIT depend on current assets investment, particularly inventories and book-debts. The financial controller of the company is examining the following alternative Working Capital Policies:

			₹ Crores
Working Capital Policy	**Investment in Current Assets**	**Estimated Sales**	**EBIT**
Conservative	4.50	12.30	1.23
Moderate	3.90	11.50	1.15
Aggressive	2.60	10.00	1.00

After evaluating the working capital policy, the Financial Controller has advised the adoption of the moderate working capital policy. The company is now examining the use of long-term and short-term borrowings for financing its assets. The company will use ₹ 2.50 crores of the equity funds. The corporate tax rate is 35%. The company is considering the following debt alternatives.

		(₹ Crores)
Financing Policy	**Short-term Debt**	**Long-term Debt**
Conservative	0.54	1.12
Moderate	1.00	0.66
Aggressive	1.50	0.16
Interest rate-Average	12%	16%

You are required to calculate the following:

i. Working Capital Investment for each policy:

   a. Net Working Capital position

   b. Rate of Return

   c. Current ratio

ii. Financing for each policy:

   a. Net Working Capital position.

   b. Rate of Return on Shareholders' equity.

   c. Current ratio.

10 Marks

SECTION – B: ECONOMICS FOR FINANCE (40 Marks)

Answer all questions

Question 7.

a. What are the major differences between Foreign Direct Investment and Foreign Portfolio Investment?

3 Marks

b. Explain the concept of Liquidity Trap.

2 Marks

c. What are the operating procedures and instrument of monetary policy?

3 Marks

d. Discuss the role of 'Market Stabilization Scheme' in our economy.

2 Marks

Question 8.

a. Compute credit multiplier if the required reserved ratio is 10% and 12.5% for every ₹ 1, 00,000 deposited in the banking system. What will be the total credit money created by the banking system in each case?

3 Marks

b. Under Floating Rate Regime how exchange rate is determined?

2 Marks

c. Examine the relationship between purchasing power of money and general price level. Why do people demand money for precautionary motive?

3 Marks

d. What is Cambridge – Approach theory of demand for Money?

2 Marks

Question 9.

a. Calculate Narrow Money (M_1) from the following data

Currency with public	₹ 90000 crore
Demand Deposits with Banking System	₹ 200000 crore
Time Deposits with Banking System	₹ 220000 crore
Other Deposits with RBI	₹ 280000 crore
Saving Deposits of Post office saving banks	₹ 60000 crore

2 Marks

b. What are the problems associated with foreign Direct Investment?

3 Marks

c. What is Speculative demand for Money. Explain with the help of a diagram?

3 Marks

d. Which of the following is FDI?

i. A Bulgarian investor Boryana Gergiev pays cash and buys 0.2 % of all outstanding equity shares of Mariette company which makes computer peripherals

ii. Augusta Corp lends pounds 10 million to Lee Sud, a Dutch parts making firm in which it holds 79 percent of equity

2 Marks

Question 10.

a. Why is The Quantity Theory of Money Important?

2 Marks

b. How does money supply impacted inflation in the economy?

3 Marks

c. (i) Calculate velocity of money

Money Supply	5000 billion
Price	110
Volume of transaction	200

(ii) What will be the outcome if volume of transaction increases to225?

3 Marks

d. The Nominal Exchange rate of India is ₹ 56/1 $, Price Index in India is 116 and Price Index in USA is 112. What will be the Real Exchange Rate of India?

2 Marks