



The Institute of Chartered Accountants of India

Code: IN8FM419078
Subject : 08 Financial Management and Economics For Finance

Total Marks: 100
Marks Obtained : 94

Subject FM-ECB
Number of Answer Books used : Main + 4 additional sheets

For use by ICAI only

419078



07 FEB 2021

Q.No.	To be ticked (✓) by the candidate against the Questions answered	Marks Awarded (To be filled by Examiner)					Total
		a	b	c	d	e	
1							
2							
3							
4							
5							
6							
7							
8							
9							
10							
11							
12							
13							
14							
Total							

Total Marks awarded (in words) _____

Examiner's Signature _____

Use only Blue / Black Ball Point
Pen to write and shade the circles.
AVOID RED PEN.
Write the marks in the boxes before
shading the respective circles.

Total Marks awarded

0	0
1	1
2	2
3	3
4	4
5	5
6	6
7	7
8	8
9	9



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INSTRUCTIONS TO THE CANDIDATE

Answers are not to be written on this page

- Answers should be written in figures and words in the allotted space at the right hand corner of the answer book only and nowhere else including additional answer book/s and graph paper.
- Roll number should be written in the box in numbers and darken the appropriate circles of the OMR bubbles provided in the right hand corner of the cover page with **Black / Blue** ball point pen.
3. Fill particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space at the left hand upper corner.
 4. Remove the Bar Code sticker of the particular paper from the Attendance sheet and affix the same on the box provided in the right hand corner of the cover page.
 5. Since a machine will read the Roll no., please check and ensure that Roll number written in numbers, words and circles darkened are correct. In case any candidate fills this information wrongly, Institute will not take any responsibility for rectifying the mistake.
 6. The answers should be written neatly and legibly
 7. The answer to each question must be commenced on a fresh page and question number prominently written at the top of each answer. Alternatively, the question number should be distinctly written in the margin.
 8. The answer to each question in all parts should be fully completed in one page or in a consecutive set of pages, before the next question is taken up.
 9. Writing of Roll number in place/s other than the space provided for the purpose or writing distinguishing mark, symbols like "OM", "Sri", "Jesus", "786", etc., will tantamount to adoption of "unfair means"
 10. Before submission of answer book to the invigilator take care to score out (X) blank pages, if any, that you might have left.



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Ans(1a.)

Working Notes:-

(1) Equity share Capital = 2,09,000 ₹

(2) Total debt = 0.75

Owner's Equity

⇒ Total debt = Owner's Equity × 0.75

= 2,09,000 × 0.75

= 1,56,750 ₹

(3) Current debt to total debt = 0.4

⇒ Current debt / Total debt = 0.4

⇒ ~~Total debt~~

⇒ Current debt = Total debt × 0.4

1.56,750

⇒ Current debt = 0.4

current debt

⇒ Current debt = 0.4 × 1,56,750

= 62,700 ₹

(4) Long-term debt = Total debt - Current debt

= 1,56,750 - 62,700

= 94,050 ₹



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(5.)
$$\begin{aligned}\text{Total Assets} &= \text{Total Liab} \\ &= \text{ESC} + \text{Total debt} \\ &= 203000 + 1,50,000 \\ &= \boxed{3,50,000 \text{ ₹}}\end{aligned}$$

(6.)
$$\text{Inventory T/O} = 8$$

$$\Rightarrow \frac{\text{Sales}}{\text{Inventory}} = 8$$

$$\Rightarrow \text{Inventory} = \frac{\text{Sales}}{8} = \frac{703000}{8} = \boxed{87,500 \text{ ₹}}$$

(7.)
$$\text{Total Assets T/O} = 2$$

$$\Rightarrow \frac{\text{Sales}}{\text{Total Assets}} = 2$$

$$\Rightarrow \text{Sales} = 2 \times 3,50,000 = \boxed{7,00,000 \text{ ₹}}$$

(8.)
$$\text{Fixed Asset to Owner's Equity} = 0.6$$

$$\Rightarrow \frac{\text{FA}}{\text{ESC}} = 0.6$$

$$\begin{aligned}\Rightarrow \text{FA} &= \text{ESC} \times 0.6 \\ &= 203,000 \times 0.6 \\ &= \boxed{1,23,800 \text{ ₹}}\end{aligned}$$



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(a) $\text{Total Assets} = \text{Fixed Assets} + \text{Cash} + \text{Inventory}$
 $= 3,50,000 = 1,29,000 + \text{Cash} + 87,500$

$\Rightarrow \text{Cash} = 3,50,000 - 1,29,000 - 87,500$
 $= \underline{1,42,500}$

Balance sheet

1aStep1	Equity	2,02,000	Fixed Assets	1,29,000
	Long term debt	99,000	Current Assets	
1aStep2	Short-term debt (current)	69,000	Inventory	87,500
1aStep3			Cash	1,42,500
1aStep4		<u>3,50,000</u>		<u>3,50,000</u>

1a



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Ans 16)

~~Given~~ Model =
Given.

- Net Profit = 30,00,000
- 12% Pre Share Cap = 1,09,00,000
- ESC = 60,00,000
- No of Shares = $\frac{60,00,000}{10} = \boxed{6,00,000}$
- IRR = rate of return = 22% = 0.22
- $k_e = 18\% = 0.18$
- $b = \text{retention ratio} = 75\%$
 $= \underline{0.75}$

Working Notes -

(1)	Net Profit	30,00,000
$(1,09,00,000 \times 12\%)$	(-) Preference Dividend	13,08,000
	Net Profit available to equity	16,92,000
	No of Shares	6,00,000

1

1bStep3

$$\text{Earning per Share} = E = \frac{\text{Net Profit to Equity}}{\text{No of Shares}} \\ = \frac{16,92,000}{6,00,000} = \boxed{2.82}$$



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(2) Dividend per share = $EPS \times [1-b]$
 $= 3 \times (1-0.75)$
 $= 3 \times 0.25$
 $= \boxed{0.75 \text{ ₹}}$

(1) Gordon's Model

$$Price (P_0) = \frac{E(1-b)}{k_e - b \cdot k_e}$$
$$= \frac{3(1-0.75)}{0.18 - (0.75 \times 0.22)}$$

2 1bStep1 $= \frac{0.75}{0.18 - 0.165}$
 $= \frac{0.75}{0.015} = \boxed{50 \text{ ₹}}$

(2) Walter's Model

2 1bStep2 $Price (P_0) = \frac{D + \frac{E(1-b)}{k_e}}{k_e}$
 $= \frac{0.75 + \frac{0.22}{0.18} [3 - 0.75]}{0.18}$

5 1b $= \frac{0.75 + 2.25}{0.18} = \frac{3.5}{0.18} = \boxed{19.444 \text{ ₹}}$



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Ans(1c)

Risk free Rate = 7%

Year	CFAT (1)	CE coeff (2)	Adjusted Cash flow (1x2)	PV factor	Present Expected cash flow
1	1,00,000	0.90	90,000	0.935	84,150
2	1,50,000	0.80	1,20,000	0.873	1,04,760
3	1,15,000	0.60	69,000	0.816	56,304
4	1,00,000	0.55	55,000	0.763	41,965
5	50,000	0.50	25,000	0.713	17,825
3	1cStep1				305,004
1	1cStep2				(3,00,000)
					5,004
1	1cStep3				
5	1c				

loss = total outlay

Since the NPV is +ve & 5,006.2.

The project is beneficial.



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Ans (d)

(1) Operating Cycle period = Raw Material
Store
+ WIP Conversion
+ FG Storage
+ Debt collection
— Creditor Payment
period

$$= R + W + F + D - C$$
$$= 45 + 20 + 25 + 30 - 60$$
$$= \boxed{60 \text{ days}}$$

1dStep1

(2) No. of Operating cycles = Total no days
Operating cycle
period

$$= \frac{360}{60} = \boxed{6}$$

1dStep2

(3) Working Capital Required = Annual Operating
Cost
No of Operating cycle

1dStep3

$$= \frac{25,03,000 - \text{Rep}(2,50,000)}{6}$$
$$= \frac{22,53,000}{6} = \boxed{3,75,500}$$



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(4)

$$\begin{aligned}\text{Operating cycle} &= R + W + F - I \\ &= 45 + 20 + 25 - 60 \\ &= \boxed{30 \text{ days}}\end{aligned}$$

$$\begin{aligned}\text{No of operating cycle} &= \frac{\text{Total days}}{\text{Operating cycle}} \\ &= \frac{360}{30} = \boxed{12}\end{aligned}$$

$$\begin{aligned}\text{Working Capital} &= \frac{\text{Annual op. Cost cost}}{\text{No of cycles}} \\ &= \frac{2250000}{12} \\ &= \boxed{1,87,500 \text{ ₹}}\end{aligned}$$

Reduction

$$\begin{aligned}\text{Addition in Working Cap} &= \text{Previous WC} \\ &\quad - \text{Current WC} \\ &= 3,75,000 - 1,87,500 \\ &= \boxed{1,87,500 \text{ ₹}}\end{aligned}$$

20

Q1

2

1dStep4

5

1d



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Ans (2p)

Profit statement of XYZ Ltd

Sales	84,09,000
(-) Variable cost $(84,09,000 \times 75\%)$	(63,09,000)
<u>Contribution</u> $(84,09,000 \times 25\%)$	21,09,000
(-) Fixed cost	(7,50,000)
EBIT	13,59,000
(-) Interest	(3,69,000)
EBT	9,90,000
(-) Tax @ 30%	(2,97,000)
EAT	6,93,000

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DO NOT WRITE ANYTHING HERE



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Q

Ans 3.

A Ltd $\rightarrow$ 60% Debt + 40% Equity
B Ltd $\rightarrow$ 20% Debt + 80% Equity
 $k_d = 8\%$

(a.)

$k_o = 18\%$

EBIT = Net operating income = 4,50,000 ₹

$\Rightarrow$ Value of A Ltd. = $\frac{\text{EBIT}}{k_o}$

$$= \frac{4,50,000}{18\%}$$

$$= \boxed{25,00,000 ₹}$$

3Step1

3Step2

Market Value of Debt	=	15,00,000
" " of Equity	=	10,00,000
Total MV. of A Ltd	=	<u>25,00,000 ₹</u>

(i)

NI

4,50,000

$\rightarrow$ Interest (15,00,000 $\times$ 8%)

(1,20,000)

EBT Available for equity

3,30,000

3% return of X = 3,30,000 $\times$ 3%

$$= \boxed{9,900 ₹}$$

3Step3



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(ii) Implied rate of return =

$$\frac{\text{Profit for equity} \times 100}{\text{MV of equity}}$$
$$= \frac{3,39,000}{10,03,000} \times 100$$
$$= \boxed{33\%}$$

1

3Step4

(6). ~~NOT~~

Value of BHD = Value of AHD

$$= 25,03,000 \text{ ₹}$$

1

3Step5

Value of debt = 5,08,000

Value of equity = 20,03,000

$$\underline{\underline{25,03,000}}$$

1

3Step6

NOT

Interest (5,08,000 × 8%) = 40,640

Available for equity = 4,67,360

(i) Implied rate of return

$$= \frac{\text{Available for equity} \times 100}{\text{MV of equity}}$$
$$= \frac{4,67,360}{22,89,000} \times 100$$
$$= \boxed{20.5\%}$$

1

3Step7



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(iii) A Ltd has ~~50%~~^{60%} debt, while B Ltd has 20% debt, in case of net operating income after tax as the ~~debt~~ debt increase in the capital structure,

"Increase in debt is partially or completely offset ~~set off~~ by the increase in the cost of equity"

As debt, brings more risk to equity shareholders, therefore, as debt increases, k_e also rises.

So, in case of A Ltd, k_e is higher because more debt is present

1 3Step8 In case of B Ltd, it has less k_e , because less debt is present

9 3



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(Ans. 5)

Ques (1) Calculation of P.V. Cash flow +

Machine A +
Year

Particulars	1	2	3	4	~~total~~
Cost before dep.	230,000	240,000	220,000	5,60,000	
(-) Depreciation	(20,000)	(20,000)	(20,000)	(20,000)	
Profit before tax	30,000	40,000	20,000	3,60,000	
(-) Tax @ 30%	(9,000)	(12,000)	(6,000)	(1,08,000)	
Profit after tax	21,000	28,000	14,000	2,52,000	
(+) Dep.	20,000	20,000	20,000	20,000	
Cash flow	221,000	228,000	214,000	2,52,000	
PV Factor	0.893	0.797	0.712	0.636	
Present (Discounted) Cash flow	1,97,353	1,81,716	1,52,368	2,87,472	

Discounted cash flow = 8,18,909 ₹

$$\Rightarrow \frac{\text{Depreciation} - \text{Cost} - \text{Salvage}}{\text{life}} = \frac{8,03,000}{4} = \underline{2,00,750 ₹}$$



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	<u>Machine B +</u>			
~~Year~~ Particulars	1	~~2~~ 2	3	4
Net Profit Before Dep. & Tax	1,75,000	2,69,000	3,29,000	1,50,000
(-) Depreciation	(1,50,000)	(1,50,000)	(1,50,000)	(1,50,000)
Net Profit After Tax	25,000	1,19,000	1,79,000	Nil
(-) Tax @ 30%	(7,500)	(35,700)	(51,000)	Nil
Profit after tax	17,500	77,000	1,17,000	Nil
(+) Dep.	1,50,000	1,50,000	1,50,000	1,50,000
Cash flow	1,67,500	2,27,000	2,69,000	1,50,000
2 Step 2				
Sum of discounted Cash flow = ~~8,13,560~~				
PV Factor	0.893	0.797	0.712	0.636
PV Cash flow	1,49,578	1,80,919	1,91,528	95,400
Total discounted Cash flow = 6,17,425				
⇒ Depreciation = $\frac{\text{Cost} - \text{Salvage}}{\text{Life}} = \frac{6,09,000}{4} = 1,52,250$				



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(10) NPV Method +

	A	B
Sum of discounted Cash inflow	8,18,909	6,17,425
less:- Initial outflow	(8,00,000)	(6,00,000)
<u>NPV</u>	<u>18,909</u>	<u>17,425</u>

2

5Step3

Machine A is better in NPV better because it increases NPV by 1,484

(2) Discounted Payback +

	A		B	
Year	Cash inflow	Cumulative	Cash inflow	Cumulative
1	1,97,353	1,97,353	1,49,576	1,49,576
2	1,81,716	3,79,069	~~1,80,219~~ 1,80,219	3,30,497
3	1,52,366	5,31,435	1,91,528	5,22,025
4	2,87,472	8,18,907	95,400	6,17,425



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$$\begin{aligned} A:- & 3 \text{ years} + \frac{8,09,200 - 5,31,437 (2,68,563)}{2,87,472} \\ & = 3 + 0.934 \\ & = \boxed{3.934 \text{ years}} \end{aligned}$$

$$\begin{aligned} B:- & 3 \text{ years} + \frac{6,09,200 - 5,22,925 (77,775)}{25,400} \\ & = 3 + 0.8173 \\ & = \boxed{3.8173 \text{ years}} \end{aligned}$$

(B) is better because Payback period is smaller than A.

(3) Profitability index Method $\frac{\text{Sum of discounted cash inflow}}{\text{Investment}}$

$$A:- \frac{8,18,909}{6,09,200} = 1.023$$

$$B:- \frac{6,17,425}{6,09,200} = 1.029$$

A & B both have approx same PI, still ~~A is~~ B is better than A.



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Section - B

7a. $C = 200 + 0.8Y$
 $I = 1,200$

Equilibrium level of income $\Rightarrow AS = AD$
 $\Rightarrow Y = C + I$

Thus,

$$Y = \cancel{200} C + I$$
$$\Rightarrow Y = (200 + 0.8Y) + 1,200$$

$$\Rightarrow Y - 0.8Y = 1,400$$

$$\Rightarrow 0.2Y = 1,400$$

$$\Rightarrow Y = \frac{1,400}{0.2} = \boxed{7,000 \text{ ₹}}$$

→ Consumption exp at

$$\begin{aligned} \text{Eqm level of income} &= 200 + 0.8Y \\ &= 200 + 0.8(7,000) \\ &= 200 + (0.8 \times 7,000) \end{aligned}$$

3 7aStep1

$$\begin{aligned} &= 200 + 5,600 \\ &= \boxed{5,800 \text{ ₹}} \end{aligned}$$

3 7a



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(76) Direct & Indirect quote
Direct quote is the quote
in which

→ An exchange rate which tells how much units of ~~domestic~~ domestic local currency are needed to ~~buy~~ exchange one unit of foreign currency ~~that is direct quote~~
For example: $1 \$ = 60 ₹$

→ An exchange rate which tells how much units of foreign currency are exchangeable for one unit of local currency ~~that is indirect quote~~

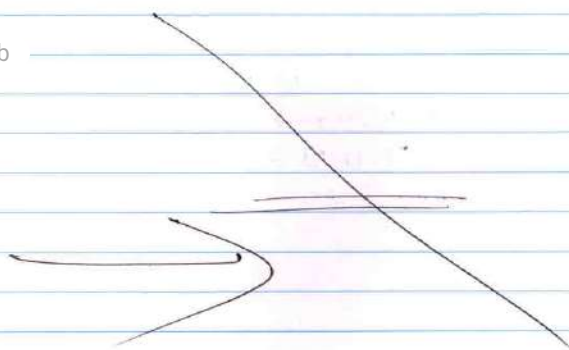
For example: $1 ₹ = 0.0166 \$$

1

7bStep1

1

7b





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Ans

$M_2 = M_1 + \text{total savings deposits with Post office savings Banks.}$

whereas, $M_1 = \text{Currency \& notes} + \text{coins with public} + \text{Reserve deposits with Govt.} + \text{other deposits of RBI}$

$$\begin{aligned} \text{So, } M_1 &= C + DD + OD \\ &= 43,5656.6 + 2,74,254.9 \\ &\quad + 1,234.2 \\ &= \underline{7,11,145.7 \text{ ₹}} \end{aligned}$$

So, $M_2 = M_1 + \text{savings deposits with Post office}$

3 7cStep1

$$\begin{aligned} &= 7,11,145.7 + 647 \\ &= \underline{7,11,793.4 \text{ ₹}} \end{aligned}$$

3 7c



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Ans. (7d)

According to Kaynesian liquidity theory -

→ the transaction motive for holding cash relates to "the need for current transactions for personal & business exchange".

→ It arises because of lack of synchronisation between receipts & expenditures.

→ It includes two parts - income motive & business motive

→ Both of which stressed on the requirement of individuals & businesses to bridge the time gap between receipts & expenditure.

2 7dStep1

2 7d

Transaction demand for money -

[$L_{tr} = \text{key}$]

L_{tr} = transaction demand for money
or earnings

9 Q7

K = proportion of income kept for transaction purpose.



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80

(Ans 8a)

Here, $GVAMP = \text{Value of output in}$
 $\text{sector} - \text{Value of}$
 $\text{intermediate cons.}$

So, $GDPM = \text{Value of output in primary} - \text{Int. cons of primary}$
 $+ \text{Value output of secondary} - \text{Int. cons of secondary}$
 $+ (\text{Output of tertiary} - \text{Int. cons of tertiary})$

$$\Rightarrow \underline{GDPM} = (1500 - 750) + (2700 - 1200) + (2100 - 900)$$

$$= 750 + 1500 + 1200$$

$$= \cancel{3450}$$

$$= \boxed{3,450 \text{ ₹}}$$

→ $GVAMP \text{ of primary sector} = 750 \text{ ₹}$

→ $GVAMP \text{ of secondary} = 1500 \text{ ₹}$

→ $GVAMP \text{ of tertiary} = 1200 \text{ ₹}$

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$$\Rightarrow \text{Now, } GNP_{mp} = GDP_{mp} + \text{Net factor income from Abroad}$$

$$= 3,450 + (60)$$

$$= \boxed{3,390 \text{ ₹}}$$

5 8aStep1

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5 8a

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Ans (86)

(i) CRR (Cash Reserve Ratio) :

All schedule ~~comm~~ commercial banks in India are required to maintain a fraction of their ~~deposits~~ total net demand & time liability (NTDL) in the form of cash deposits ^{with RBI} known as CRR.

→ The RBI may set this ratio in keeping with the broad objective of maintaining monetary stability in economy.

→ Higher the CRR, lower the liquidity in the system.

→ RBI reduces the in inflation, ~~high liquidity & expansionary monetary policy~~ in order to contain credit expansion & ~~thereby~~ reduce money supply.

→ RBI increase the ~~ratio~~ CRR, when ~~the~~ inflation ~~high~~ liquidity to expand.

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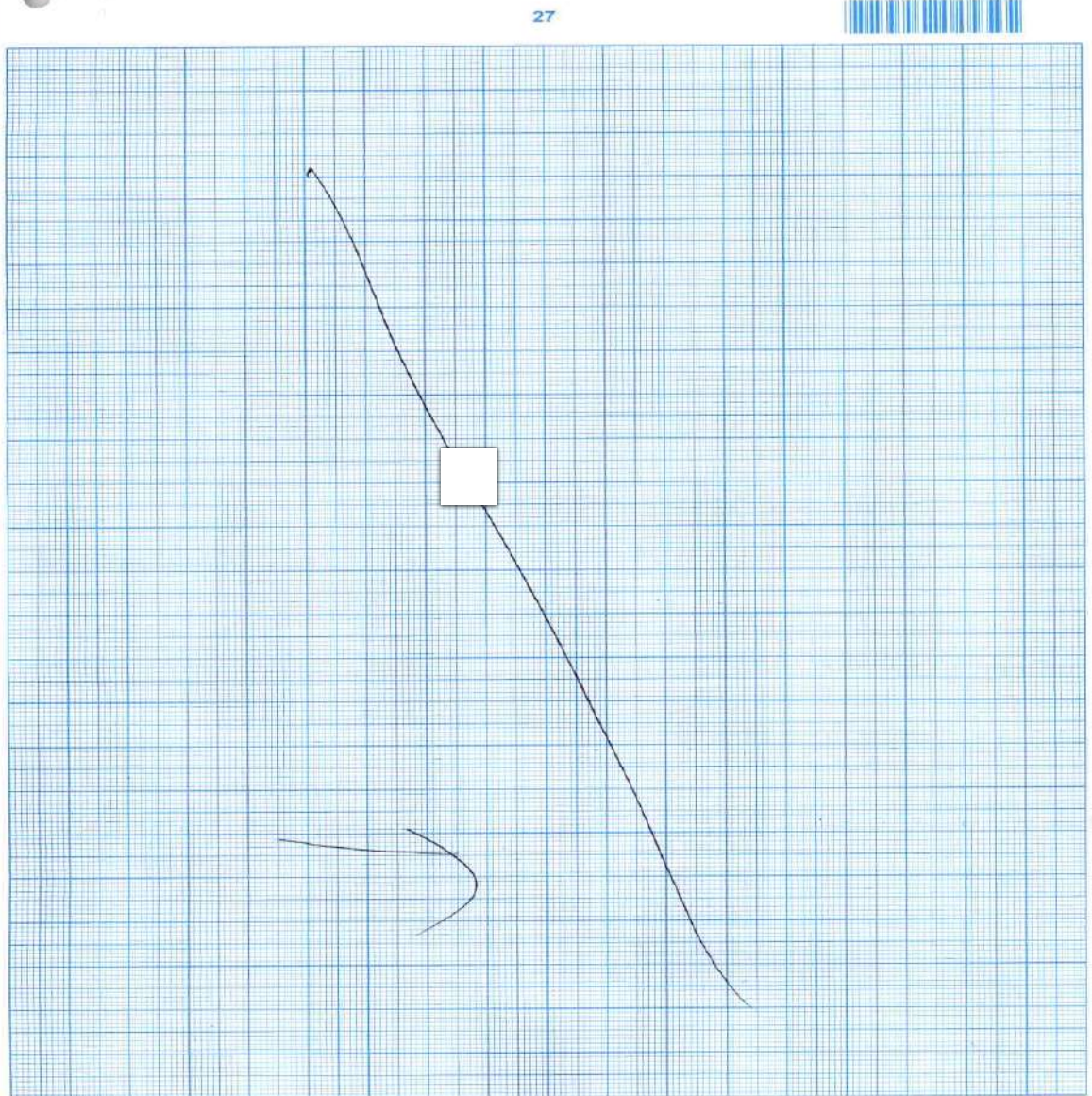
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→ RBI increases CRR during slowdown / economic downturn to expand ~~the~~ the credit & increase money supply & liquidity.

→ No interest on CRR balances, but penalty is there if banks fail to comply.

(ii) SLR (Statutory Liquidity Reserve)

All schedule commercial are required to maintain a stipulated percentage of Net ~~the~~ demand & time liabilities in one or more of the following:

→ Cash

→ Gold

→ Investments in ☐ encumbered instruments,

• Currency bills

• Dated securities

• State developmental loans

• Other prescribed



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Addl. Book No. 2

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

**DO NOT WRITE ROLL NUMBER ANYWHERE IN THIS
ADDITIONAL ANSWER BOOK**

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- Penalty is there for failure of Banks.
- It facilitates a captive market for government securities.
- It ~~also~~ influences liquidity condition.
- Raising inflation & high liquidity, RBI increase SLR to lock up a given fraction of bank assets ~~in~~ ^{eligible interest} ~~in~~ ^{instruments} reduces money supply & liquidity.
- Raising slowdown economic growth, RBI ~~also~~ decreases SLR to increase the credit expansion. & increases money supply.



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Ans (8b)

(ii) → crowding out effect is the negative effect fiscal policy may generate when money from the private sector is crowded out to public sector.

→ (or) when the private sector demand is crowded out with the public sector.

Example → When govt. provides free computers, demand from students for computers may not be forthcoming.

→ ~~when~~ when govt. ~~for~~ increases expenditure, by borrowing from the loanable funds ~~in~~, the ~~net~~ demand for loan increases & interest rate is pushed up. Consequently, private sector ~~will~~ are dependent on bank loans will cut back on their spendings.

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Q8

→ when govt. increases the budget deficit, by issuing treasury bills, it increases the interest rates & thus private sector's ~~and~~ which are dependent on financing will cut back their investment expenditure.

→ thus, fiscal policy becomes ineffective because the increase in aggregate demand by govt expenditure is partially or completely ~~offset~~ offset by the ~~govt~~ decrease in private spending.

→ However, during ~~deep~~ deep recession, crowding out is less likely to occur, because there is ~~the~~ minimal private sector investment ☐ crowd

1 8biiStep1

1 8bii

& also govt. can borrow money without increase interest rate.



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Ans ~~9a~~ (9a)

(i) $GDP_{mp} = \overset{NDP_{fc}}{\cancel{NDP_{fc}}} + \text{Net indirect taxes} + \text{Depreciation}$

$$\Rightarrow GDP_{mp} = 1450 + [\text{Indirect taxes} - \text{subsidies}] + 26$$
$$= 1450 + [57 - 18] + 26$$
$$= 1450 + 39 + 26$$
$$= \cancel{1515} \quad \boxed{1515}$$

~~Ans~~ Now,

According to income approach,

$NDP_{fc} = \text{Comp of employees} + \text{Operating surplus}$
(Profit & profit)
+ mixed income

3 9ai Step 1 $150 = 810 + 453 + \text{mixed income}$

$$\Rightarrow \text{Mixed income} = 1450 - 810 - 453$$
$$= \boxed{187}$$

3 9ai



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Addl. Book No. 2

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
ADDL. BOOK

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ADDITIONAL ANSWER BOOK

~~Q~~ (9a)

(1) $K = \text{investment multiplier}$
 $= \frac{1}{1-MPC}$

Here,
 $MPC = 0.8$

$\Rightarrow K = \frac{1}{1-0.8} = \frac{1}{0.2} = \boxed{5 \text{ times}}$

$\Rightarrow$ If $\frac{1}{5}$ times increase in expenditure,
leads to 5 times more
increase in GDP

Now, $K = \frac{\Delta Y}{\Delta I}$

9aiiStep1 $5 = \frac{\Delta Y}{6}$

9aii $\Rightarrow \Delta Y = 30 \text{ billion}$

$\Rightarrow \text{increase in GDP} = \underline{\underline{30 \text{ billion}}}$



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Ans (96)

(i) Advantages of Floating Exchange Rate

- It reduces the RBI's need to maintain Gold reserves & Foreign exchange reserves.
- RBI can focus on other aspects of the ~~the~~ economy more efficiently & effectively.
- It ~~saves~~ saves lot of efforts & time of RBI & ~~the~~ Govt.
- It is determined by the market supply & demand, so more accurate.
- ~~It~~ It helps the ~~developed~~ 9biStep1 economies from getting exploited by developed economies.

2

9bi

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(96)

(ii) This scheme of monetary management was introduced in 2004, following of a MoU ~~between~~ between RBI & Govt of India with the primary aim of aiding the sterilization operations of RBI.

→ Sterilization is the process by which the ~~Reserve Bank~~ monetary authority ~~offsets~~ the sterilises / ~~offsets~~ the effect of significant ~~large~~ foreign capital inflow on domestic liquidity by ~~offsetting~~ the sale of govt. securities held by it.

2 9bii Step 1

9 Q9

2 9bii Govt borrows from RBI & issues treasury bills & dated securities for reducing the impact of foreign capital inflow on domestic liquidity by reducing liquidity



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Ans (10a)

(i) Allocation instruments of Govt. are -

- Govt. may directly produce economic goods (Electricity)
- Govt. may influence private sector allocation by incentives & disincentives.
- Govt. sets legal & administrative frameworks
- Govt. regulatory activities such as licensing, etc influence resource allocation.
- ~~Govt. may~~ Govt. may ~~produce~~ affect through merger policies, competition policies, the structure of allocation (competition etc)

3 10aiStep1

3 10ai

~~Govt.~~ any of the mixture of intermediate techniques.



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Ans/10a)

(i) Money multiplier is a ratio that relates the changes in the money supply to a given change in Monetary Base.

It explains how many times money supply increases as a result of increase in monetary base.

$$\text{Money Multiplier (m)} = \frac{\text{Money Supply}}{\text{Monetary Base}}$$

It is affected by excess reserves of banks, required reserves of RBI & holding cash (currently)

It is directly related with money supply
→ increase in money multiplier increases money supply



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2



~~(109)~~
Ans (106)

(i) Fiscal deficit = Revenue Receipts
+ Non-dpt Capital Receipts
— Total Exp. on Revenue
acc & Capital acc.
$$= 226.82 + 103.00 - 547.82$$
$$= \cancel{(217.8)} \quad (217.8)$$

Primary Deficit = Fiscal deficit — Interest
Payments
$$= 217.8 - 86$$
$$= (201.8)$$

2 10biStep1

(106)

2 10bi (i) Trade Barriers : This is the
policy of countries
to restrict the flow of
1 10biiStep1 imports to into the home country.

1 10bii It imposes various duties & taxes
to make it a barrier for
trade.

3 Q10

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3

Section A
Ans(4)

Notes:- (In the absence of info, PV has been assumed NP however it may be taken as Market Price)

Q1) Cost of deb = $k_d = \frac{I(1-T) + \left(\frac{RV-NA}{n}\right) \times 100}{\left(\frac{RV+NA}{2}\right)}$

$= \frac{10(1-0.3) + \left(\frac{100-98}{10}\right) \times 100}{\left(\frac{100+98}{2}\right)}$

$= \frac{7 + 0.2}{99} \times 100$

$= 7.27\%$

Q2) Cost of Eq. shares = $k_p = \frac{PD + \left(\frac{RV-NP}{n}\right) \times 100}{\left(\frac{RV+NP}{2}\right)}$

$= \frac{12 + \left(\frac{100-97}{10}\right) \times 100}{\left(\frac{100+97}{2}\right)}$

$= \frac{12 + 0.3}{98.5} \times 100 = 12.49\%$



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4

Cost of equity = $\frac{D_1}{P_0} + g$

$$= \frac{2}{(25-4)} + 0.05$$
$$= \frac{2}{21} + 0.05$$
$$= 14.52\%$$

2 4Step3

WACC

Component	MV.	Weight	Cost	WACC
10% Deb	3,39,000	0.178	7.27%	1.297
12% Pre Shares	2,79,000	0.145	12.49%	1.8235
Equity	12,00,000	0.6758	14.52%	9.809
	18,18,000	1		12.93%

4 4Step4

WACC = 12.93%

Market Value

Deb = $\frac{3,39,000}{100} \times 110 = 3,72,900$

Pre Shares = $\frac{2,79,000}{100} \times 103 = 2,87,270$

Equity = $\frac{5,00,000}{10} \times 25 = 12,50,000$



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Addl. Book No. 4

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Ans (2)

Working Notes:-

~~Profit~~ Profit Volume Ratio = 25%
 $\Rightarrow$ Contribution = 25% of Sales
 $= 25\% \times 84$
 $= \boxed{21 \text{ lakh}}$

Variable Cost = Sales Cost
 $= 84 - 21$
 $= \boxed{63 \text{ lakh}}$

~~Contribution~~ EBIT = Sales Cost V.C. - F.C.
 $= 84 - 63 -$
 $= \boxed{13.5 \text{ lakh}}$

$\Rightarrow$ Financial Leverage = $\frac{\text{EBIT}}{\text{EBIT} - \text{Int.}}$
 $\Rightarrow 1.39 = \frac{\text{EBIT}}{13,50,000 - \text{Int.}}$
 $\Rightarrow - (1.39) \text{Int.} + 18,76,500 = 13,50,000$



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2

$\Rightarrow (1.39) \text{ Net} = 5,26,500$
 $\Rightarrow \underline{\text{Net}} = \underline{3,78,777}$

	Sales	84,00,000	
1	2Step1	Variable Cost Contribution	(63,00,000) 21,00,000
		(-) FC	(7,50,000)
		EBIT	13,50,000
		(-) Net (W.V.)	(3,78,777)
		EBT	9,71,223
		(-) 30% Tax	(2,91,367)
		EAT	6,79,856
1	2Step2	No of Shares ($\frac{\text{50 lakhs}}{100}$)	50,000 Shares

(i) Operating leverage = $\frac{\text{Cont}}{\text{EBIT}}$
 $= \frac{21,00,000}{13,50,000}$
 $= \underline{1.55}$

2

2Step3

2Step4

Combined leverage = $\frac{\text{Cont}}{\text{EBT}}$
 $= \frac{21,00,000}{9,71,223}$
 $= \underline{2.1622}$



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(i) ~~CL~~ $CL = OL \times PL$
 $= 1.55 \times 1.39$
 ~~$= 2.085$~~ $= 2.1622$

(ii) Earning P.S. = $\frac{\text{Total EAT (Available to Equity)}}{\text{No of shares}}$
 $= \frac{6.79.856}{2000}$
 $= 13.59 \text{ ₹ per share}$

(iv) Earning Yield = $\frac{EPS}{MPS}$
 $= \frac{13.59}{200} \times 100$
 $= 6.79\%$

Note:- In the given ques, the details of interest given & financial leverage, are not matching



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So, it is assumed that there might be some other int bearing bond as well, so used financial leverage ~~will~~ to calculate interest instead of bonds

Alternatively,

If ~~used~~ using the interest given in the ques

$$As = 39,21000 \times 12\% = \boxed{4,705,200 \text{ ₹}}$$

So, financial leverage will change accordingly
→ ~~all~~ all answers will change accordingly

10

2



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Result Overview

Awarded Marks: 94

Max Marks:100

NA Not Attempted

0 Optional

M **Marked**

Q1 Compulsory (Score: 20/20)

Question No	Awarded Marks	Maximum Marks	Status
Q1	20	20	M
1a	5	5	M
1b	5	5	M
1c	5	5	M
1d	5	5	M

Q2_Q6 (Score: 39/40)

Question No	Awarded Marks	Maximum Marks	Status
Q6	0	10	O
6a	0	4	O
6b	0	4	O
6c	0	2	O
2	10	10	M
3	9	10	M
4	10	10	M
5	10	10	M

Q7 Compulsory (Score: 9/10)

Question No	Awarded Marks	Maximum Marks	Status
Q7	9	10	M
7a	3	3	M
7b	1	2	M
7c	3	3	M
7d	2	2	M

Q8_Q11 (Score: 26/30)

Question No	Awarded Marks	Maximum Marks	Status
Q8	9	10	M
8a	5	5	M
8bi	3	3	M
8bii	1	2	M

Q9	9	10	M
9ai	3	3	M
9aii	2	2	M
9bi	2	3	M
9bii	2	2	M
Q10	8	10	M
10ai	3	3	M
10aii	2	2	M
10bi	2	3	M
10bii	1	2	M
Q11	0	10	O
11ai	0	3	O
11aii	0	2	O
11bi	0	3	O
11bii	0	2	O