The Institute of Chartered Accountants of India

Code: IN6AF328383 **Total Marks:** 35

Subject : 06A Financial Management **Marks Obtained** : 35

Paper No. 6 Section No. A

Subject FM & SM

Number of Answer Books used : Main + ... additional sheets

Date Seal 21 JAN 2025

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328383

A

PUT THE SEAL WITH IN THIS CIRCLE
THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA
SEAL
JANUARY, 2025

Paper Code: F D T 1

MCQ Booklet Serial No. 3 0 9 4 2 6 5

Paper No. 6

Level of Exam → Intermediate Intermediate

MCQ Answers for section A and B

No Marks for this page

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...stion number prominently written at the top of each answer.
...margin.
...d in one page or in a consecutive set of pages, before the next question
...ction A in the answer booklet with the marking Ⓐ on the cover page and
... the marking Ⓑ on the cover page. In case a candidate writes the answers in
...not be valued and no correspondence in this regard will be entertained.
...than the space provided for the purpose or writing distinguishing mark, symbols like "OM",
...amount to adoption of "unfair means"
...wer book to the invigilator take care to score out (X) blank pages, if any, that you might have left.

...UCTIONS TO THE CANDIDATE FOR FILLING THE MCQ ANSWER FIELDS

...I.B. Pencil to Darken the appropriate Circle.
...nd darken the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final for evaluation.
...ase any candidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.
...Please darken the complete circle.
4. If you want to change your Answer, erase the darkened circle completely and make a fresh mark.
5. Please do NOT make any stray marks on the OMR cover page.
6. Rough work must NOT be done on the OMR cover page.
7. Mark your answer only in the appropriate space against the number corresponding to the question.

How to mark answers

CORRECT METHOD Ⓐ ● Ⓒ Ⓓ

WRONG METHOD

Q. No.	To be ticked ✓ by the candidate against the Questions answered (Descriptive Type)	Q. No.	
1		8	
2		9	
3		10	
4		11	
5		12	
6		13	
7		14	
Total		Total	

No Marks for this page

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03

Question 1(a)

Sale collection & Cr Payment

	April	May	June	July	Aug	Sep
1) Sales	10 L	12L	15L	10L	13L	14L
collection (2m cr period)			10L	12L	15L	~~13L~~ 10L ~~10L~~
2) Cost of goods sold (80%)	8L	9.6L	12L	8L	10.4L ~~10.4L~~	11.2L
Paid to cr (1m after sales)				12L	8L	10.4L

3) Indirect exp (Paid & accrued in same month)

Cash Budget

	Particulars ~~July~~	July ~~Aug~~	Aug ~~Sep~~	Sep
	opening ~~stock~~ Bal. ~~1.5L~~	1.5L	1L ~~1.5L~~	~~1L~~ 2L
	Reciepts			
(+)	Sales collection	12L	15L	10L
	Payments			
(–)	Dividend Paid ~~Bonus~~			(3L)
(–)	Payment to creditors	(12L)	(8L)	(10.4L)
(–)	Indirect exp.	(1.2L) ~~(1L)~~	(1L)	(1.3L)
		30K	7L	(2.7L)
(+)	Short term loan (bal fig)	70K	–	3.7L
(–)	Investment	–	(5L)	–
	Closing Cash Balance	1L	2L	1L

1aStep1 5

1a 5

[1–1a:5]

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04

Q1(b)

Total Asset Turnover Ratio = 2.5

Total Assets (balance sheet) = 80L

$\frac{\text{Turnover (sales)}}{\text{Total Assets}}$ = ~~80L~~ × 2.5

∴ Sales = 80L × 2.5 = 200L

Profitability statement

	Sales	200L	EBIT = Earning before Interest & Taxes
(–)	variable cost (70%)	(140L)	
	contribution	60L	EBT = Earning before Tax
(–)	Fixed cost	(16L)	
	EBIT	44L	
(–)	Interest (40L × 12.5%)	(5L)	
	EBT	39L	
(–)	Taxes @ 30%	(11.7L)	
	EAT	27.3L	
	No. of equity shares (20L/100)	20,000	

i) $\boxed{\text{Earning Per share} \quad 136.5}$

[Earning After Tax / no. of equity shares]

1bStep1 2

1bStep2 1

ii) Operating leverage = $\frac{\text{contribution}}{\text{EBIT}}$ = $\frac{60L}{44L}$ = 1.3636 Times

1bStep3 1

iii) Financial leverage = $\frac{\text{EBIT}}{\text{EBT}}$ = $\frac{44L}{39L}$ = 1.1282 ~~[illegible]~~ Times

[1–1b:5]

iv) Combined leverage = $\frac{\text{contribution}}{\text{EBT}}$ = $\frac{60L}{39L}$ = 1.5385 Times

1bStep4 1 1b 5

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05

Q1 (c)

Profit before Tax		40L
(-) Taxes @ 30%		(12L)
	Profit After Tax	28L
No. of equity shares $\left(\frac{40L}{10}\right)$		4L
	Earning Per share	7

Return on investment (R) = 18%

Cost of Equity = 15% (ke)

Dividend Pay out Ratio = 50%

Dividend per share = 7 × 50% = 3.5 (D)

Retained Earning = EPS − DPS = 3.5

Walter model :-

$$P_0 = \frac{D + R/ke\,(E - D)}{ke}$$

$$= \frac{3.5 + (18\%/15\%)(7 - 3.5)}{15\%}$$

1cStep1 3

∴ Price = 51.333 (Approximate)

ii) Dividend P/O Ratio = ? Let DPS = x

Price = 48

$$48 = \frac{x + 18\%/15\%\,(7 - x)}{15\%}$$

$$7.2 = x + 1.2(7 - x)$$

$$8.4 - 0.2x = 7.2$$

1cStep2 2

[1−1c:5] $\boxed{x = 6}$

Dividend = ₹ 6 , EPS = 7.

⇒ Dividend Pay out Ratio = $\frac{DPS}{EPS} = \frac{6}{7}$

$\boxed{= 85.714\%}$

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06

1c 5

i) Price = ₹51.33 / share

Dividend P/O Ratio @ Price = 48 = 85.7142%

1 15

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ICAI 07

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Question 2(a)

i) Cost of equity (CAPM) = $R_f + \beta(R_m - R_f)$

R_f = Risk free Rate

$(R_m - R_f)$ = Risk Premium

~~Pre~~

$R_f = 4.5\%$

$(R_m - R_f) = 9\%$

β (Beta) = 1.5

Ke (cost of equity) = $4.5\% + 1.5(9\%) = 18\%$

$\boxed{Ke = 18\%}$

2aStep1 1

ii) Cost of convertible Debentures

$$= \frac{\text{Interest}(1-\text{taxes}) + \left[\dfrac{\underset{(RV)}{\text{Redemption value}} - \underset{(NP)}{\text{Net Proceeds}}}{\text{Maturity yrs}}\right]}{\left[\dfrac{RV - NP}{2}\right]}$$

Redemption value :- ~~higher of • Redemption Price~~ 4 equity shares × 1 Deb × Price of equity share @ 6yr
~~or~~
~~• Price of Equity shares on conversion~~

Redemption Price = ~~...~~ Price after 6yrs × 4 shares

Price of equity shares @ 6th year

$\text{Price}_{\text{@ end of 6yr}} = \text{current Price}(1+g)^6$

Price is expected to grow @ 6%.

$\text{Price}_{@6yr} = 55(1+6\%)^6$

= 78 (Approx)

No Marks for this page

Redemption value) = 78 × 4 = 312

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08

$$k_d = \frac{(100 \times 10\%)(1-30\%) + \left[\frac{312-108}{6}\right]}{\left[\frac{312+108}{2}\right]}$$

ii) $\boxed{k_d = \frac{7+34}{210} = 19.52\% \text{ (approx.)}}$

2aStep2 2

Rate = 10%

Face value = 100

RV = 312

NP = 108 (Taken as current market Price)

Maturity = 6 yrs

Cost of Term loan = Interest (1 − taxes)

= 12% (1 − 30%)

R 1 2aStep3

iii) $\boxed{k_{TL} = 8.4\%}$

(iv) Weighted Average Cost of Capital

	Source	Market value	weights	Cost	WACC
(20L × 55)	Equity	1100L	0.892	18%	0.16056
(108 × 1L)	10% Deb.	108L	0.088	19.52%	0.0172
	Term loan	25L	0.02	8.4%	0.0017
		1233L	1		

WACC = $\boxed{17.94\%}$ ~~17.2~~

2aStep4 3

i) $k_e = 18\%$

ii) $k_d = 19.52\%$

iii) $k_{TL} = 8.4\%$

2a 7

iv) WACC = 17.94%

[2−2a:7]

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Code: IN6AF328383 **Total Marks:** 35

Subject : 06A Financial Management **Marks Obtained :** 35

09

Q2(b)

(i) operating cycle Period = Raw material holding period + WIP conversion period + Finished good holding period + Debt collection period − Creditor payment method.

substituting from question,

operating cycle Period = 61 + 20 + 30 + 45 − 60

= $\boxed{96 \text{ days}}$

2bStep1 1

(ii) No. of operating cycles in a year = $\frac{360 \text{ days}}{\text{operating cycle period}}$

= $\frac{360}{96}$ = $\boxed{3.75 \text{ cycles per year}}$

2bStep2 1

(iii) Amount of working capital Required

= $\frac{\text{Cash Annual operating cost}}{\text{no. of operating cycles}}$

= $\frac{60L - 4.8L}{3.75}$ = ₹14,72,000

working capital Required = $\boxed{₹ 14.72L}$

2bStep3 1

2b 3

2 10

[2−2b:3]

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10

Question 3(b)

Equity share capital = 2L (owner's equity)

$\frac{\text{Total Debt}}{\text{owner's equity}} = 0.65$

Total Debt = 0.65 (owner's equity)
= 0.65 (2L)
= 1.3L

$\frac{\text{Current Debt}}{\text{Total Debt}} = 0.35$ ⇒ current Debt = 1.3L × 0.35
= 45500

$\frac{\text{Fixed Asset}}{\text{owner's equity}} = 0.55$ → Fixed Asset = ₹2L × 0.55
= 1.1L

Total Assets = Total Debt + owner's equity
= 1.3L + 2L = 3.3L

Total Asset Turnover Ratio = $\frac{\text{Turnover}}{\text{Total Assets}}$ = 2.5 times

∴ Turnover = 8.25L

Inventory Turnover Ratio = $\frac{\text{Sales}}{\text{Inventory}}$ = 10 times

⇒ closing Inventory = 82500

Balance sheet as on 31 March 2024

Liabilities	₹	Assets	₹
Equity share capital	2L	Fixed Assets	1.1L
Current Debt	45500	Current Assets :-	
Non-current Debt (1.3L − 45500)	84500	Inventory ~~82500~~	82500
		other C.A (bal fig)	137500
	3.3L		3.3L

3bStep1 4

3b 4

[3−3b:4]

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11

Q3 (a)

Present value of cash outflows

Cost of Plant = 20L (A)

Working capital

@ end Yr 1 (It is assumed to be @ end)

Debtors 1.5L

Stock 2L

(-) Crs (1L)

Net working capital 2.5L

PV = 0.847 × 2.5L

PVCO = A + B = 211750 + 20L

= 2211750

Useful life = 5yrs

Depreciation

P.a = $\frac{20L - 1L}{5}$

= 3.8L

Present value of cash inflows :-

Cash flows After Tax

	Particulars	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5
	No. of units sold	1L	1L	1L	1L	1L
	Selling Price	150	150	150	150	150
I	Sales	150L	150L	150L	150L	150L
(-)	Direct cost @ 100 p.u	(100L)	(100L)	(100L)	(100L)	(100L)
(-)	Fixed cost (Includes Dep)	(8L)	(8L)	(8L)	(8L)	(8L)
(-)	Marketing costs	(1L)	(1.6L)	—	—	—
	Profit before Tax	41L	40.4L	42L	42L	42L
(-)	Taxes @ 30%	(12.3L)				
	Profit After Tax	28.7L	28.28L	29.4L	29.4L	29.4L
(+)	Depreciation	3.8L	3.8L	3.8L	3.8L	3.8L
	Cash flow after Tax	32.5L	[illegible]	33.2L	33.2L	33.2L
	PV factor	0.847	0.718	0.609	0.516	0.437

No Marks for this page

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12

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PV of CFAT = 10,24,1934 (A)

Terminal cash flow :- Residual value + working capital
= 1L + 2.5L
= 3.5L

PV = 3.5L × 0.437
= 152950 (B)

PVCI = A + B
= 10,39,4,884

PVCO = 2211750L

(i) Net Present value = Present value of cash Inflows − Present value of cash outflows
= 81,83,134

3aStep1 5

Profitability Index = $\frac{PVCI}{PVCO}$ = $\frac{10394884}{2211750}$ = 4.699
≅ 4.7

(ii) As the NPV is +ve and PI > 1, the machine should be purchased by SRT Ltd.

3aStep2 1

3a 6

3 10

[3−3a:6]

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Subject :	06A Financial Management	**Marks Obtained** :	35

15

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Subject : 06A Financial Management **Marks Obtained :** 35

16

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Subject :	06A Financial Management	**Marks Obtained** :	35

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18

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Code: IN6AF328383 **Total Marks:** 35

Subject : 06A Financial Management **Marks Obtained :** 35

19

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Page 19

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20

[4−4a:0,4−4b:0,4−4c:0]

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Result Overview

Awarded Marks: 35 **Max Marks:**35

NA **Not Attempted** O **Optional** M **Marked**

Q1_Compulsory (Score: 15/15)

Question No	Awarded Marks	Maximum Marks	Status	Question Comments
1	15	15	M	
1a	5	5	M	
1b	5	5	M	
1c	5	5	M	

Q2_Q4 (Score: 20/20)

Question No	Awarded Marks	Maximum Marks	Status	Question Comments
2	10	10	M	
2a	7	7	M	
2b	3	3	M	
3	10	10	M	
3a	6	6	M	
3b	4	4	M	
4	0	10	O	
4a	0	4	O	
4b	0	4	O	
4c	0	2	O	