M.com-II / SEM-IV / REGULAR EXAM / 30/5/2017

ɔject Code: 67511 / Group A: Advanced Accounting, Corporate Accounting and Financial Management: Financial Ma

8

Duration:2 Hours **Maximum Marks :60**

Note: 1) Figures to right indicate marks
2) Working notes should be part of answer
3) All questions are compulsory.

Q.1.A firm has a current sales of Rs. 2,56,48,750. The firm has un-utilized capacity. In order to boosts its sales it is considering the relaxation in its credit policy. The proposed terms of credit will be 60 days credit against the present policy of 45 days. As a result the bad debts will increase from 1.5 % to 2% of sales. The firm's sales are expected to increase by 10%. The variable operating costs are 72% of the sales. The firm's corporate tax rate is 35% and it requires an after tax return of 15% on its investment. Assume 360 days in a year. Should the firm change its credit period? (15)

OR

Q.1. A factory is currently working at 50% capacity and produces 10,000 units. Prepare a Flexible Budget and estimate the profits of the company when it works at 60% and 80% capacity and advice the company. At 60% working raw material cost increases by 2% and selling price falls by 2%. At 80% capacity working the raw material cost increases by 5% and selling price falls by 5%. At 50% capacity working the product costs Rs.180 per unit and is sold at Rs.200 per unit. (15)

Cost structure

Particulars	Per unit
Material	100
Labour	30
Factory overheads	30(40% fixed)
Administrative overheads	20(50% fixed)

Q.2. The management of P Ltd. is considering to select a machine out of the two mutually exclusive machines. The company's cost of capital is 12% and corporate tax rate for the company is 30%. Details of the machines are as follows: (15)

Machine	I	II
Cost of the machine	Rs.10,00,000	Rs.15,00,000
Expected life	5 years	6 years
Annual income before tax and depreciation	Rs.3,45,000	Rs.4,55,000

Depreciation is to be charged on straight line basis.

You are required to:

a) Calculate the discounted pay-back period, net present value.
b) Advice the management of P Ltd. as to which machine they should take up. (PV factor @ 12% is 0.893, 0.797, 0.712, 0.636, 0.567, 0.507)

OR

9

Q.2.Prepare cash budget of a company for April, May and June 2016 by using the following information: (15)

Months	Sales (Rs.)	Purchases(Rs.)	Wages(Rs.)	Expenses(Rs.)
Jan	80,000	45,000	20,000	5,000
Feb	80,000	40,000	18,000	6,000
Mar	75,000	42,000	22,000	6,000
Apr	90,000	50,000	24,000	6,000
May	85,000	45,000	20,000	6,000
Jun	80,000	35,000	18,000	5,000

You are further informed that :

a)10% of the purchase and 20% of the sales are for cash.

b)The average collection period of the Company is ½ month and the credit purchases are paid off regularly after one month.

c)Wages are paid half monthly and rent of Rs.500/- is paid monthly.

d)Cash and bank balance as on April 1st 2016 is Rs.15,000/- and the company wants to keep it on the end of every month at this figure, the excess cash being put in fixed deposits.

Q.3.a.A firm's inventory planning period is one year. Its inventory requirement for the period is 1,600 units. Assume that its order are Rs.50 per order. The carrying costs are expected to be Re1 per unit per year for an item.

The firm can produce inventories in various lots as follows: (i)1,600 units, (ii)800 units, (iii) 400 units, (iv) 200 units and (v) 100 units. Which of these order quantities is the economic order quantity by using (a)Table method and (b) Equation method. (08)

b. Calculate profitability index from the following details: (07)

Year	Inflow (Rs.)	PV factor @ 10%
1	1,000	0.909
2	2,000	0.826
3	3,000	0.751
4	4,000	0.683
5	5,000	0.621

Cost of the investment is Rs.11,000/-

OR

Q.3.A Company has prepared the following projections for a year: (15)

Sales	21,000 units
Selling price per unit	Rs.40
Variable cost per unit	Rs.25
Total cost per unit	Rs.35
Credit period allowed	one month

The company proposes to increase the credit period allowed to its customers from one month to two months. It is envisaged that the change in the policy as above will increase the sales by 8%. The company desires to return of 25% on its investment.

You are required to examine and advice whether the proposed credit policy should be implemented or not.

(10)

Q.4.a. Choose the correct alternative and rewrite the statements: (08)

1. The type of collateral (security) used for short term loan is ______
(real estate, plant & machinery, Stock of goods, Equity share capital)
2. Commercial paper are generally issued at a prices _____
(equal to face value, more than face value, less than face value, equal to redemption value)
3. Capital budgeting is a part of ____
(Investment decision, working capital management, marketing management, capital structure)
4. The number of years taken by a project to recover the initial investment is called ___
(payback period, investment period, profit period, none of these)
5. The minimum amount of working capital required to enable the concern to operate at the lowest level of the activity is called ______
(Gross working capital, net working capital, permanent working capital, temporary working capital)
6. Gross working capital means ____.
(Total assets, total current assets, total current liabilities, fixed assets minus current liabilities)
7. Management of all matters related to an organization's finance is called ______
(Cash inflows and outflows, allocation of resources, financial management, finance)
8. To achieve wealth maximization, the finance manager has to take careful decision in respect of _____
(Investment, financing, Dividend, all of the above)

b. State the following statements are true or false: (07)

1. For availing funds from short-term sources, credit rating of borrower is generally not required.
2. A firm should always arrange the funds by delaying the payment to creditors and payables.
3. Net present value method uses cost of debt as a discounting rate.
4. Investments with longer payback periods are more desirable, all else being equal.
5. Net working capital can never be negative.
6. Working capital refers to a firm's long term capital.
7. Planning function of management involves taking corrective action if needed.

OR

Q.4. Write short notes on any three: (15)

1. Preference share capital
2. Factors affecting working capital
3. Credit standards
4. Production Budget
5. Strategic decision making process

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