Duration – 2.5 Hrs Marks – 75

Note: 1) All questions are compulsory.
2) Figures to the right hand side indicate full marks.
3) Suitable assumptions if any and working notes should form the part of your answer.

Q1A. State whether following statements are true or false. Any8 (08)

1. The volume of credit sales is the first factor which increases or decreases the size of receivables.
2. A key function of inventory management is to keep a detailed record of each new or returned product as it enters or leaves a warehouse or point of sale.
3. Zero Based Budgeting saves time and effort.
4. The chief financial officer (CFO) is the officer appointed by the government that has primary responsibility for managing the company's finances in private limited company.
5. Optimum level of investment in receivables is achieved at a point where there is a trade-off between cost, profitability and liquidity.
6. Stock review involves analysis of stock on hand versus projected future needs at the end of year.
7. The master budget is the starting point in preparing the sales budget.
8. The working capital cycle is the amount of time it takes to turn the net current assets and current liabilities into cash.
9. Higher the proportion of fixed operating cost as compared to variable cost, higher is the operating leverage
10. The most direct evidence of wealth maximization is changes in the price of a company's shares.

Q1B. Match the Column (any 7) (07)

	A	B
I.	Cash and Cash Equivalent	a. Costs of manufacturing
II.	Inventory Management	b. High working capital
III.	Financial Leverage	c. Long term Goals of Management
IV.	Production Budget	d. Raw Material Costs
V.	Financial Managers	e. Depreciation of Machinery
VI.	Factoring	f. Electricity
VII.	Semi Variable Costs	g. Components of Working Capital
VIII.	Fixed Costs	h. Trading on Equity
IX.	Peak Seasons	i. Risk Management of Receivables
X.	Variable Costs	j. ERP systems

Q2A. Apple Ltd. is considering the revision of its credit policy with a view to increase its sales and profit. (15)
Currently all its sales are on credit and the customers are given one month's time to settle the dues. It has a contribution of 35% on sales. It can raise funds at a cost of 15% p.a. The marketing manager of the company has given the following options along with estimates for considerations:

Particulars	Existing Policy	Policy I	Policy II	Policy III
Sales (Rs)	25,00,000	28,00,000	35,00,000	45,00,000
Credit period (in months)	1	1.5	2	3
Bad debts (% of sales)	2	2.5	3	5
Collection Charges (Rs)	1,20,000	1,30,000	1,50,000	3,00,000

Investment in Debtors is to be taken at sales value. You are required to advise the company for the best option.

OR

Q2B. On 31st March , 2019 , following was the Balance sheet of Mango Pvt Ltd. (15)

Liabilities	Rs	Assets	Rs.
Equity shares (Rs. 10) fully paid	1,00,000	Machinery (Cost) 1,00,000 Less Depreciation 25,000	75,000
Reserves and surplus	50,000	Stock	1,00,000
Creditors	2,00,000	Debtors	75,000
Proposed Dividend	75,000	Bank	1,75,000
	4,25,000		4,25,000

The company is developing a system of forward planning and on 1st April, 2019 submits the following information:

Particulars (2019)	Credit Sales (Rs)	Cash Sales (Rs)	Credit Purchase (Rs)
March	75,000	70,000	2,00,000
April	90,000	25,000	1,15,000
May	1,00,000	30,000	1,35,000
June	1,25,000	40,000	1,30,000

On 1st April, 2019 the machinery will be replaced at a cost of Rs.1,50,000, Rs.90,000 will be allowed in exchange for the old equipment and a net payment of Rs.60,000 will be made. Depreciation is to be provided at the rate of 10 % per annum.

The proposed dividend will be paid in June 2019

The following expenses will be paid:

Wages Rs.15,000 per month.

Administration Rs.75,000 per month

You are required to prepare a cash budget for the period between April – June 2019.

Q3A. Find out all the 3 leverages from the following data and provide your comments on same. (10)

Net Worth	Rs 12,50,000
Interest Rate	10%
Operating Profit	Rs 15,00,000
Fixed Cost	Rs 4,00,000
Debt/Equity	6:2

Q3B. Calculate EOQ level from the data. (05)

Demand for the Child Cycle at Best Buy is 250 units per month. Best Buy incurs a fixed order placement, transportation, and receiving cost of Rs. 1,000 each time an order is placed. Each cycle costs Rs. 400 and the retailer has a holding cost of 20 percent. (Round off to nearest unit).

OR

Q3C. Orange Ltd gives you the following information:

For production of 20000 kgs of a finished product, budgeted expenses are as under:

	Rs.per unit
Direct materials	60
Direct wages	30
Variable overhead	25
Fixed overhead	15
Selling expenses (20% fixed)	15
Administration expenses (rigid at all levels)	05

Prepare a flexible budget for production of 15000 kgs, 30000 kgs and 25000 kgs. (15)

Q4A. Strawberry Ltd. has Equity Share Capital of Rs 15,00,000 divided into shares of Rs 100 each. (15)

It wishes to raise further Rs 5,00,000 for expansion – cum- moderation scheme.

The Company plans the following financing alternatives:

(i) By raising Term Loan only at 15% per annum.

(ii) Rs 2,00,000 by issuing Equity shares and Rs 3,00,000 by issuing 9% preferences shares.

(iii) By issuing Equity shares only.

(iv) Rs 2,00,000 by issuing Equity shares and Rs 3,00,000 through Debentures or Term Loan @ 12% per annum..

You are required to suggest the best alternative giving your comments assuming that the estimated operating profit after expansion is Rs 7,25,000 and corporate tax rate is 25%.

OR

Q4B. Hi-tech Ltd. plans to sell 60,000 units next year. The expected cost of goods sold is as follows: (08)

	Rs. (Per Unit)
Raw material	200
Manufacturing expenses	60
Selling, administration and financial expenses	40
Selling price	400

The duration at various stages of the operating cycle is expected to be as follows :

Raw material stage - 2 months

Work-in-progress stage - 1 month

Finished stage - 1/2 month [comprises of Raw material and manufacturing expenses only.]

Debtors stage - 1 month

Assuming the monthly sales level of 5,000 units, estimate the gross working capital requirement. Desired cash balance is 5% of the gross working capital requirement, and working- progress is 25% complete with respect to manufacturing expenses.

Q4C. Given, Current Assets = Rs720 lakhs Current Liabilities = Rs 240 lakhs Core Current Assets = Rs 360 lakhs. Calculate MPBF limits as per Tandon Committee. (07)

Q5A. Discuss in brief the functions of strategic financial management. (08)

B. Discuss the basic strategies for cash management. (07)

OR

Q5. Write Short notes on any 3 (15)

1. Commercial Papers
2. Objectives of Inventory Management
3. Master Budget
4. Trading on Equity
5. Operating cycle.