I S.Y. BJM Sem IV FM - II

VCD 9/10/19

DURATION: 2HRS 30 MIN

MARKS :75

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

Q.1 A. **Answer any Eight from the following:** **[08]**

Match the following

A	B
1)Financial leverage	I) C/EBIT
2)Operating leverage	II) EBIT/EBT
3)Cash budget	III)Economic order quantity
4)EOQ	IV) Maximum permissible bank finance
5)MPBF	V) Semi finished goods
6)WIP	VI)Fixed expenditure
7)At Break –even point profit/loss	VII)Equityshare capital
8)Debenture interest	VIII)Equal to zero
9)Common stock	IX)Depreciation is ignored
10)Budgetary control	X) Controlling

B **State whether the following statements are true or false(Answer any Seven):** **[07]**

a. Trade credit is a source of working capital..
b. Longer the production cycle larger will be the requirement of working capital.
c. Trade creditor is a short term source of finance.
d. Higher rate of stock turnover improves liquidity
e. Credit policy provides information about the period of credit allowed to customers
f. Carrying cost is the cost of placement of an order
g. Fixed budget is drawn for multiple level of activities.
h. Strategic Financial Management always shows a short term view.
i. Combined leverage should be as high as possible
J Credit sales result in accounts receivable.

Q.2A.

Following details are available from the records of a firm. Prepare a cash budget for the 3 months ending 30.06.2017 **[15]**

Month	Sale (Rs.)	Materials (Rs.)	Wages (Rs.)	Overheads (Rs.)
February	28,000	19,200	6,000	3,400
March	30,000	18,000	6,000	3,800
April	32,000	18,400	6,400	4,000
May	34,000	20,000	7,200	4,400
June	36,000	20,800	8,000	4,600

Additional Information:

(a) 10% sales are on cash.
(b) 40% of the credit sales are collected next month and the balance in the following month.
(c) Period of credit allowed by suppliers 2 months.

(d) Delay in payment of wages ½ month.
(e) Delay in payment of overheads ½ month.
(f) Cash and Bank Balance on 1.04.2017 is expected to be Rs. 10,000.
(g) Plant and Machinery will be installed in February 2017 at a cost of Rs. 90,000. The monthly installment of Rs. 2,000 are payable from April 2017 onwards.
(h) Advance to be received for sale of vehicle Rs. 10,000 in June.
(i) Dividend from investments Rs. 5,000 is expected to be received in June 2017
(j) Advance Income Tax to be paid in June 2017 Rs. 4,000.

OR

B. A manufacturer operates three sales divisions X, Y, Z, which sell three branded products A, B and C. The budget committee needs a sales budget for the next year from the following information : [15]

Budget sales units for current year:

Product	X	Y	Z
A	40,000	6,000	6,000
B	3,000	8,000	4,000
C	2,000	12,000	5,000

Actual sales units for the current year based on actual sales to the date and estimated sales for the balance of the year are:

Product	X	Y	Z
A	5,000	8,000	7,000
B	2,000	10,000	5,000
C	1,000	10,000	4,000

The selling prices per unit of A, B and C are Rs. 5, Rs. 10, and Rs. 20 respectively applicable for all the divisions.

The discussions with divisional sales managers have product "A" is overloaded and if the price is increased by 10%, even then it finds a ready market: product "C" is overpriced and the price of it can be reduced by 5%. By incorporating these changes, the sales will be as follows:

Product	X	Y	Z
A	+30%	+40%	+20%
B	-10%	+30%	-10%
C	+10%	+20%	+10%

You are required to prepare the budget for the current year as well as budget for the next year.

Q.3A.

The marketing manager of A Ltd. is giving a proposal to the Board of directors of the company that an increase in the credit period allowed to customers from the present one month to two months will bring 25% increase in sales volume in the next year. The following is the current operational data [15]

	Rs.(per unit)
Selling Price	21
Variable cost	14
Total cost	18
Sales value	21,00,000

The board request you to give your expert opinion on adoption of the new policy in the next year subject to the companies required rate of return on investment is 25%. Calculate opportunity cost on total cost.

OR

B. Find out a) Minimum stock level b) Maximum stock level C) Re-ordering stock level D)Average stock level from the following particulars [08]

Minimum consumption :200 units per day
Maximum consumption : 300 units per day
Normal consumption : 240 units per day
Re-order quantity : 3000 units per day
Minimum period for receiving the goods :8 days
Maximum period for receiving the goods: 16 days
Normal period for receiving the goods :12 days

C. A firm has sales of Rs.20,00,000, Variable cost Rs.14,00,000 and fixed cost Rs.4,00,000.It has debt capital finance of Rs,10,00,000 at 10%.
Calculate1) a) Operating Leverage b) Financial Leverage C) Combined Leverage
2) If the firm had to decline sales by 50% ,What percent drop would it have in EBIT and EBT [07]

Q.4A.

Electronics Devices Ltd. sells goods to domestic market on a gross profit of 25% on sales without considering depreciation. It estimates for the next year are as follows [15]

Sales	
Domestic (2 months credit) Export(3 months credit)	3,200 1,080
Cost	
Material (2 months credit) Wages (0.5 month in arrear) Manufacturing expenses(1 month in arrear) Sales promotion expenses (payable quarterly in advance) Administration expenses(1 month in arrears)	1,200 800 1200 160 400

The company maintains one months stock of raw material and finished goods .A cash balance of Rs.20 lakhs is maintained. You are required to work out the working capital requirements of the company.

OR

Q4B. The Board of directors of Century Ltd. requests you to prepare a statement showing the requirements of working capital for a forecast level of 1,04,000 units .Following information is made available [15]

Raw material	400
Labour	150
Overheads manufacturing	200
Overheads selling and distribution	100

Additional information

a) Selling price Rs.1000 per unit
b) Raw material in stock Average 4 weeks
c) W.I.P average 4 weeks
d) Finished goods in stock average 4 weeks
e) Credit allowed to debtors average 8 weeks
f) Credit allowed by suppliers average 4 weeks
g) Cash at Bank is expected to be Rs.50,000
h) Core current assets Rs.2,00,000

Find out MPBF under all methods suggested by Tandon committee

Q.5

A) What are the principles of sound financial planning? [08]

B) Distinguish between debt finance and equity finance. [07]

OR

Q5 Write short notes on (any three) [15]

A) Financial leverage

B) Budgetary control

C) Economic order quantity

D) Factors determining working capital requirements

E) Cash management objectives

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