Mgt.

QP Code : BF-7327

REVISED COURSE (NEW PATTERN)

(2 Hours) [Total Marks : 60

N. B. : (1) All questions are compulsory and carry 15 marks each.
(2) Working notes should form part of your answer.
(3) Proper presentation and neatness is essential.
(4) Use of simple calculator is allowed.

1. Ruby manufacturing company gives the following details. Estimated level of activity 26,000 units of production for the year 2013-14. **15**

Estimated Cost per Unit is :–

	Rs.
Raw materials	20
Direct wages	8
Overheads	16
Selling price	50

Further information :–

(1) Raw materials in stock average 4 weeks consumption.
(2) Work-in progress 2 weeks. 52
(3) Finished goods in stock 2 weeks.
(4) Credit allowed by suppliers 2 weeks.
(5) Credit allowed to debtors 3 weeks.
(6) Lag in payment of wages and overheads 1 week.
(7) Cash at Bank for smooth operation is expected to be Rs. 24,000.
(8) Production is carried on evenly throughout the year.
(9) Provide a margin of safety at 10%.
(10) Debtors are to calculated at selling price.
(11) 25% purchases and 20% sales are against cash.

You are required to prepare a statement showing working capital requirements for the year 2013-14.

OR

130,000
260,000

[TURN OVER

1. Eshabella Garments Company Ltd. is a famous manufacturer and exporter of garments to the European countries. You are required to prepare working capital requirements for the next year 2014-15, after considering the following information :– 15
   (1) Production during the current year was 1,50,000 units. The same level of activity is intended to be maintained during the next year 2014-15.
   (2) The expected ratios of cost to selling price are :–

Raw materials	40%
Direct wages	20%
Overheads	20%

   (3) The raw materials ordinarily remain in store for 3 months before production.
   (4) Every unit of production remains in the process for 2 months.
   (5) Finished goods remain in warehouse for 3 months.
   (6) Credit allowed by the creditors is 4 months from the date of the delivery of raw material.
   (7) Credit given to debtors is 3 months from the date of dispatch.
   (8) The estimated balance of cash to be held Rs. 1,50,000.
   (9) Time lag in payment of wages and overheads is ½ month.
   (10) Selling price would be Rs. 10 per unit for the year 2014-15.
   (11) There is regular purchase, production and sale cycle.
   (12) You are required to make provision of 10% for contingency.
   (13) During the processing labour and overheads accrue evenly.

2. Balance sheets of Power Play Ltd. are given below :– 15

Balance sheet as at **(Rs. in Lakhs)**

Liabilities	31-03-13	31-03-14	Assets	31-03-13	31-03-14
Equity Share Capital	6.50	8.00	Land & Building	2.80	2.30
9% Pref. Share Capital	4.00	3.00	Plant & Machinery	9.30	12.60
General Reserve	0.64	0.89	Investments	2.25	2.85
Profit & Loss A/c	1.19	1.64	Inventory	4.19	4.01
Trade Payables	4.14	3.95	Trade Receivables	1.48	2.29
Bank Overdraft	2.18	3.10	Advance Income Tax	1.10	1.35
10% Debentures	1.00	2.60	Cash Balance	0.18	0.10
Outstanding Exps.	0.25	0.32	Discount on issue	0.40	0.30
Proposed Dividend	0.65	0.80	of Debentures		
Provision For Tax	1.15	1.50			
Total	**21.70**	**25.80**	**Total**	**21.70**	**25.80**

[TURN OVER

You are required to prepare Cash Flow Statement as per AS-3 by Indirect Method after considering the following :

(i) 9% Preference Share Capital was partially redeemed on 01-04-2013 and preference dividend is paid in March every year.

(ii) Additional 10% Debentures were issued on 01-04-2013.

(iii) Depreciation provided during the year on Land & Building was Rs. 50,000 and on Plant & Machinery was Rs. 80,000.

(iv) Investments of Rs. 50,000 were sold at a profit of Rs. 10,000.

(v) Income Tax assessment was completed for the year ended 31-03-2013 on 01-01-2014 at Rs. 1,15,000.

All the amounts in this cash flow statement should be depicted as Rs. in Lakhs.

OR

2. Following are the Balance sheets of Yash Ltd. **15**

Balance Sheet As at 31st March

Liabilities	2013 ₹	2014 ₹	Assets	2013 ₹	2014 ₹
Equity Share Capital	6,00,000	8,00,000	Goodwill	20,000	15,000
15% Pref. Share Capital	3,00,000	2,00,000	Building	2,40,000	2,10,000
General Reserve	1,80,000	2,30,000	Machinery	6,15,000	6,07,000
Profit & Loss A/c	–	55,000	Investments	1,25,000	1,00,000
20% Debentures	2,00,000	–	Inventory	2,60,000	2,90,000
Bank Overdraft	1,40,000	1,60,000	Trade Receivables	3,37,000	4,87,500
Trade Payables	1,41,500	1,96,500	Advance Income Tax	37,500	40,000
Outstanding Exps.	28,500	23,500	Cash & Bank	30,500	40,500
Proposed Dividend	60,000	80,000	Profit & Loss A/c	20,000	–
Provision For Tax	35,000	45,000			
Total	**16,85,000**	**17,90,000**	**Total**	**16,85,000**	**17,90,000**

You are required to prepare Cash Flow Statement as per AS-3 by Indirect Method, after considering the following :

(i) 15% Preference Capital was partially redeemed on 31-03-2014 and preference dividend is paid in March every year.

(ii) 20% Debentures were converted into Equity Shares on 31-03-2014.

(iii) Additional Machinery of Rs. 1,10,000 was purchased during the year.

(iv) Investments of Rs. 40,000 were sold at Rs. 25,000.

(v) Income Tax assessment was completed for the year ended 31-03-2013 at Rs. 35,000 and refund of Advance Tax of Rs. 2,500 was received on 01-01-2014

[TURN OVER

3. Sangam Industries Limited is considering investment of Rs. 160 lakhs in fully automatic Machine. The company provides depreciation on machinery @20% p.a. on straight line basis. The scrap value of the machine at the end of 5 years is NIL. The company pays income tax @30% on the annual profits. The expected profits before depreciation and income tax for the next 5 years of operation are depicted below. You are also given PV (present value) of Re 1 @10% rate for next 5 years. 15

Year	pv of re 1	Estimated profit before depreciation and income tax (Rs.)
1	0.909	55,00,000
2	0.826	50,00,000
3	0.751	45,00,000
4	0.683	44,00,000
5	0.621	42,00,000

You are required to calculate :
(a) Net present value .
(b) Pay back period.

OR

3. Joy Forever Products Limited wants to buy a machine. There are two alternative models, Heera model and Panna model, whose particulars are as under :– 15

Name of the model	Heera (Rs.)	Panna (Rs.)
Cost	44,00,000	38,00,000
Life Expectancy	4 Years	4 Years
Profit after Depreciation @25% p.a. on straight line basis but before Income Tax		
Year 1	12,00,000	10,00,000
Year 2	10,00,000	9,00,000
Year 3	8,00,000	8,00,000
Year 4	6,00,000	8,00,000

The Company pays Income Tax @30%. The scrap value of the machines at the end of four years would be NIL. The present value of Re. 1 @10 discounting factor is as under :–

Year	PV of Re1
1	0.909
2	0.826
3	0.751
4	0.683

[TURN OVER

You are required to calculate :–

(i) Net present value (NPV) of each model.

(ii) Rate of Return of each model on initial investment.

You are required to offer your comments as to which model should be chosen by the management.

4. (a) Select the correct alternative and rewrite the sentence :– 8

- Cash Inflow before working capital changes is Rs. 4,80,000, decrease in inventory is Rs. 60,000, Increase in Receivables position is Rs. 80,000 and increase in payables position is Rs. 70,000, then cash flow from operational activity is ————.
  - (a) Rs. 5,50,000 (b) Rs. 4,30,000
  - (c) Rs. 5,70,000 (d) Rs. 5,30,000

- The duration of net Working Capital operating cycle will be decreased by ————.
  - (a) Increase in raw material storage period
  - (b) Decrease in Receivables collection period
  - (c) Decrease in creditors payment period
  - (d) Increase in production process duration

- Debentures Interest paid is Rs. 80,000, Proposed Dividend on Equity Shares is Rs. 1,50,000, Preference dividend paid is Rs. 1,20,000, Provision for Tax is Rs. 90,000, then cash outflow from financial activity is ————.
  - (a) Rs. 3,50,000 (b) Rs. 4,40,000
  - (c) Rs. 2,00,000 (d) Rs. 2,80,000

- In cash flow statement ———— will not be considered as financing activity.
  - (a) Interim Dividend paid
  - (b) Proposed Dividend on Equity Shares
  - (c) Preference Dividend paid
  - (d) None of the above

- Cost of Initial Investment in Machinery is Rs. 22,00,000. Total discounted cash inflow during operational period of 5 years is Rs. 27,72,000. The Profitability Index is ————.
  - (a) 1.25 (b) 1.26
  - (c) 0.79 (d) 0.80

[TURN OVER

- Production is Rs. 2,88,000 units per annum. Finished goods costing Rs. 95 per unit are stored for 2 months. The value of finished goods in the godown would be ______.
  - (a) Rs. 60,45,000
  - (b) Rs. 45,60,000
  - (c) Rs. 22,80,000
  - (d) Rs. 45,00,000

- Cost of Machinery is Rs. 14,00,000. Total Net Profit after Tax during operational period of 6 years is Rs. 23,52,000. Then Average Rate of Return (ARR) is ______.
  - (a) 27%
  - (b) 56%
  - (c) 28%
  - (d) 54%

- Raw material storage period is 45 days; Finished goods storage period is 30 days; average creditors payment period is 25 days and average debtors collection period is 40 days; Then cash conversion cycle period is ______.
  - (a) 60 days
  - (b) 140 days
  - (c) 90 days
  - (d) 80 days

(B) Match the column with the most appropriate choice and rewrite :– 7

Group A	Group B
• Profitability Index is less than one	• Financing Activity in Cash Flow Statement
• Cash Cost Working Capital	• Preference shares
• Proposed Dividend	• Investing Activity Inflow in Cash Flow Statement
• Issue of Right shares	• Time Value of Money
• Proceeds from sale of old fixed assets	• Investment Proposal Should be rejected
• Net Present Value	• Indirect Method
• Cash Flow Statement	• Debentures
	• Cost of Inventory excluding depreciation
	• Neither Cash inflow nor outflow

OR

4. Write short notes (any **three**) :– 15

(i) Components of Net Working Capital

(ii) Investing Activities in Cash Flow Statement

(iii) Net Present Value of Investment Proposal

(iv) Average Rate of Return (ARR) as a tool for appraisal of Investment proposal

(v) Financing Activities in Cash Flow Statement.

[TURN OVER