

[Time: 2 Hours]

[ Marks:60]

Please check whether you have got the right question paper.

- N.B:
1. All questions are **compulsory** carrying **15** Marks each.
  2. Working notes and assumptions should form **part** of your answers.
  3. Use of **simple calculator is allowed**.

Q.1 An enterprise can make either of two investments at the beginning of year 2018. Assuming a required rate of return 10%., evaluate the investment proposals under (15)

(a) Profitability Index Method

Particulars	Proposal A	Proposal B
Cost of investment (Rs)	22000	30000
Life(years)	4	5
Scrap value	Nil	Nil
Net income( after depreciation and tax)	Rs	Rs
End of 2018	500	Nil
2019	2000	3400
2020	3500	3400
2021	2500	3400
2022	-	3400

Depreciation is provided under straight line method. The present value of Rs 1 to be received at the end of each ear, at 10% p.a. is given below:

Year	1	2	3	4	5
P. V.	0.91	0.83	0.75	0.68	0.62

OR

Q.1 Prepare Cash Budget for January-June from the following information (15)

1. The estimated sales and expenses are follows:

Particulars	Nov. Rs	Dec. Rs	Jan. Rs	Feb. Rs	Mar. Rs	Apr. Rs	May Rs	June Rs
Sales	200000	220000	120000	100000	150000	240000	200000	200000
Wages & Salaries	30000	30000	24000	24000	24000	30000	27000	27000
Misc. Expenses	27000	27000	21000	30000	24000	27000	27000	27000

2. 20% of the sales are on cash basis and the balance on credit.
3. The firm has a gross margin of 25% on sales.
4. 50% of the credit sales are collected in the month following the sales, 30% in the second month and 20% in the third month.
5. Material for the sales of each month is purchased one month in advance on a credit for two months.
6. Wages and salary are paid after 1/3<sup>rd</sup> month. Miscellaneous expenses are paid after 1 month.
7. Debentures worth Rs 40000 were sold in January.
8. Cash balance at the end of December Rs 60000.

Q.2 ABC Ltd. has prepared the following projection for a year (15)

Sales	21000 units
Selling price per unit	Rs 40
Variable cost per unit	Rs 25
Total cost per unit	Rs 35
Credit period allowed	1 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 a return of 25% on its investment based on total cost. You are required to examine and advise whether the proposed Credit Policy should be implemented or not.

OR

Q.2 PQR Company Ltd. is considering to select a machine out of two mutually exclusive machines. (15)  
The company cost of capital is 12% and corporate tax rate is 30%. Other information relating to both machines is as follows:

Particulars	Machine I	Machine II
Cost of Machine	Rs 1500000	Rs 2000000
Expected life	5 years	5 years
Annual income (before Tax and Depreciation)	Rs 625000	Rs 875000

Depreciation to be charged on straight line basis: Scrap value of both machines will be nil.  
You are required to calculate  
Net present value.

Year	1	2	3	4	5
PV factor @ 12%	0.893	0.797	0.712	0.636	0.567

Q.3 A firm's inventory planning period is one year. Its inventory requirement for this period is 1600 units. Assume that its order costs are Rs 50 per order. The carrying costs are expected to be Rs 1 per unit per annum for an item firm can procure inventories in various lots as follows: (15)  
(a) 1600 units (b) 800 units (c) 400 units (d) 200 units. Which of these order quantities is the economic order quantity? Use Table Method.

OR

Q.3 M/S Humid Ltd. give the following information in respect of two components W and X used in the manufacturing process : (15)

Normal usage	500 units per week
Maximum usage	700 units per week
Minimum usage	300 units per week
Reorder level Quantity:	
W	3300 Units
X	4900 units
Reorder period:	
W	2 to 4 weeks
X	1 to 2 weeks

Calculate for each component:

1. Reorder level
2. Minimum level
3. Maximum level
4. Average stock level



Q.4 a. Multiple Choice Questions:

(08)

1. Seasonal working capital is \_\_\_\_\_.  
 (a) Permanently required (b) Fixed in nature  
 (c) Required to meet seasonal needs (d) None of the above
2. \_\_\_\_\_ is a liability of a bank.  
 (a) Treasury bills (b) Commercial papers  
 (c) Certificate of Deposits (d) Junk Bonds
3. \_\_\_\_\_ is not a capital budgeting decision.  
 (a) Expansion programme (b) Merger  
 (c) Replacement of Assets (d) Inventory level
4. The number of years taken by a project to recover the initial investment is called \_\_\_\_\_.  
 (a) Payback period (b) Investment period  
 (c) Profit period (d) None of these
5. The term net working capital refers to \_\_\_\_\_.  
 (a) The excess of current assets over current liabilities (b) The liquid assets  
 (c) The total current assets less provision (d) None of these
6. \_\_\_\_\_ will ensure high return of investment.  
 (a) Adequate working capital (b) Surplus working capital  
 (c) Shortage of working capital (d) None of these
7. The Transaction Motive for holding cash is for \_\_\_\_\_.  
 (a) Safety Cushion (b) Daily Operations  
 (c) Purchase of Assets (d) Payment of Dividends
8. Receivable Management deals with \_\_\_\_\_.  
 (a) Receipts of raw material (b) Debtors collection  
 (c) Creditors Management (d) Inventory Management

b. State the following statements are True or False:

(07)

1. Average Inventory in EOQ model is  $\frac{1}{2}$  of EOQ.
2. Cash Budget represents cash receipts and cash payments.
3. VED analysis divide the inventory into three categories.
4. The term net working capital refers to net current assets.
5. Increasing the credit period by suppliers also increase the cash conversion cycle.
6. While measuring cash inflows and outflows of a project, depreciation amount should be added back to profit before tax.
7. In India, commercial papers can be issued for any amount and for any duration.

OR

Q.4 Write a short note (Any three)

(15)

1. Factor affecting working capital
2. ABC analysis
3. Sources of Finance
4. Receivable management
5. Depreciation as a source of finance

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