19/05/17 Friday

~~Financial Markets in~~ India.

(<7)

Q.P. Code :05070

[Time: 2 Hours] Financial Management [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 from part of your answer.**
3. **Use** of **simple calculator** is **allowed**.

Q.1 Money LTD. Has anticipated sales as under 15

January to March	
April to August	Rs. 2,00,000 P.M
September to December	Rs. 2,00,000 P.M
	Rs. 1,00,000 P.M

The material cost is 25% and Labour cost is 15% of sales. The production overhead 20% of sales. The sales commission is 5% on sales and general overheads are@ 10% on sales. The credit period for sales is 1 ½ months. The minimum cash balance is Rs. 25,000. Irregular payments (a) income tax installment in June, September and December @ Rs. 25,000 (b) Dividend Rs. 1,00,000 in August. (c) Interest on borrowing Rs. 50,000 in September and March.

Prepare cash budget for April to September.

OR

Q.1 SKY Ltd. is considering purchase of a machine. Two machines 'RAIN' and 'FOREST' are available. Companies cost of capital is 12%. Details of the Machines are as follows:- 15

Particular	Machine-RAIN	Machine-FOREST
Cost of Machine	Rs. 10,00,000	Rs.15,00,000
Expected life	5 years	6 years
Annual income before Depreciation and Tax	Rs. 3,45,000	Rs. 4,55,000
Corporate Tax Rate	30%	30%

Depreciation is to be charged on straight line basis you are required to calculate: - 1. Discounted Pay-back period and 2 . Net present value.

The present value factor of Rs. 1 are as follows:

Year	1	2	3	4	5	6
At 12%	0.893	0.797	0.712	0.636	0.567	0.507

Q.2 Krishna Ltd has a present annual sales of Rs. 30,00,000 It is currently extending 30 days Credit to the dealers . It is felt that sales can pick up considerably if the dealers are willing to carry increased stocks, but the dealers have difficulty in financing their inventory. The firm is, therefore considering shift in credit policy. 15

The following information is supplied :-

1. Present average collection period is 30 days.
2. Variable cost is 40% of sales.
3. Fixed cost is Rs 1,50,000 p.a.
4. Required (Pre tax) return on investment is 10%
5. Assuming that 1 year = 360 days.

CREDIT POLICY	AVERAGE COLLECTION PERIOD (DAYS)	ANNUAL SALES (Rs.)
A	45	38,00,000
B	60	46,00,000
C	75	56,00,000

Which of the above proposals would you recommend to the company to accept?

OR

Q.2 BABU LTD. desires to estimate working capital requirement for year 2017-18 expected annual output 7,20,000 unit. The cost structure for the company is as follows:

	Cost per unit(Rs.)
Raw material	20
Wages	5
Overheads	15
Total cost	40
Profit	5
Selling price	45

The other data is as follows:

1) 30% of the sales is on cash basis and 15% of the purchases is on cash basis.
2) The stock holding of materials is of 3 months.
3) Processing period is of 2 months.
4) Finished goods remain in the store for 1 month.
5) Credit allowed to debtors is 2 months.
6) Credit allowed by creditors is 1 months.
7) Time lag in payment of wages is 2 months.
8) Overheads are paid 2 months in advance.
9) Cash balance Rs. 80,000 is to be maintained.
10) Production and overheads accrue evenly throughout the year.
11) Calculate amount of debtors at selling Price.
12) Estimate the amount of working capital requirement
13) Calculate, Maximum permissible bank finance under First and second method of financing as per Tandon committee.

Q.3 A] M/s kejal product Ltd. has offered discounts on its order in the manner stated as follows:-

Price per Tonne	Order {in TONNES}
14	300 but less than 400
13	400 but less than 1,500
12.50	1,500 but less than 3,000
12.40	3,000 but less than 7,000
12.10	7,000 And over

The Annual demand for the material is 7,000 tonnes. Inventory carrying costs are 20% of material cost (Price per ton) per annum. The delivery cost per order is Rs. 10

Calculate the "Best quantity order" for M/s kejal product Ltd.

B] Mr. Dhruv Ltd. gives you the following information in respect of components X used in the manufacturing process:- **07**

Normal usage	300 units per week
Maximum usage	400 units per week
Minimum usage	200 units per week
Reorder quantity	1,700 units
Reorder period	2 to 4 weeks

Calculate:-

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

OR

Q.3 Evaluate a project which requires an initial outlay of Rs.2,00,000 and generates revenue of Rs.1,20,000, Rs. 60,000, Rs.40,000 Rs.1,00,000 from the end of the first year to the end of the fifth year. The required rate of return is 10% and income tax rate is 50%. The project has a life of five years and will be depreciated on straight line basis. Present value of Rs. 1 at 10%. Discounting factor: **15**

Year	1	2	3	4	5
Discounting factor	0.909	0.826	0.751	0.683	0.621

Calculate : 1. Net present value 2. Profitability index

Q.4 A] State whether the following statement are true or false (Reason not required) and rewrite . **08**

1. Capital Budgeting is the process of making investment decision for capital Expenditure.
2. Debenture is a debt instrument.
3. Debenture holders have right to control.
4. Profitability index is a PV of returns per rupee invested
5. Lag in payment of overheads increases working capital requirement.
6. Higher rate of stock turnover reduces liquidity.
7. Deprecation is a Non Cash Cost.
8. Seasonal Working Capital remains constant.

B] Match the column with the most appropriate answer and rewrite the correct statement **07**

A	B
1. Working Capital	a. Fluctuating rate of dividend
2. Capital budgeting decision	b. Economic order Quantity
3. Equity Share Capital	c. Minimum permissible Bank Finance
4. ABC analysis	d. Current assets minus current liabilities
5. Terms of payments	e. Aspects of receivable management
6. EOQ	f. Cash receipts and Cash payments are estimated
7. Cash budget	g. Long term investment decisions
	h. Techniques of Inventory control.

OR

Q.4 Write a short notes on the following **(Any three)**

1. Gross and net working capital
2. Importance of Capital Budgeting.
3. VED analysis
4. Aspects of Receivable management
5. Net present Value
