SYBBI (sem IV)/Financial Management / 62

Q. P. Code: 36587

Time: 2:30 hours | 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.

Q1. A. Match the Column **(any 8)** (08)

A	B
1. Outstanding Expenses	I. Optimum ordering quantity
2. Cash Working Capital	II. Receivables Management
3. Fluctuation in prices	III. Goods in possession of bank
4. Float	IV. Speculative motive
5. ABC	V. Possession of goods with borrower
6. EOQ level	VI. Lag in payment of expenses
7. Credit Bureau	VII. Cash Cost Working Capital
8. Terms of Payment	VIII. Selective Control
9. Pledge	IX. Difference between book balance and available balance
10. Hypothecation	X. Credit Information

Q1B. State whether following statements are True or False **(any7)** (07)

1. 2/10 means 2% cash discount if paid within 10 days under receivables management.
2. Classification of debtors into age brackets is called ageing schedule.
3. Public deposits are accepted for minimum 24 months
4. Lower turnover shows less age of inventory.
5. T bills can be issued by both public and private limited companies
6. Higher rate of inflation impacts cash management techniques
7. Liquidity is the ability to transform security into cash.
8. Debtors may be valued at cash or cost under working capital management.
9. Increase in current assets leads to increase in working capital.
10. Composite leverage is combination of operating and financial leverage.

Q2 A. Suraj Ltd has at present annual turnover of Rs. 58,50,000 and the company grants one month credit to its customers. Company's selling price is Rs.15/- per unit. Bad debt loss is 2% of sales and contribution is Rs4.5/- per unit. Company's new marketing manager has given three different proposals to make credit policy more liberal to increase company's sales and profit. These proposals are as follows:

<u>Proposal I:</u> To grant one and half month's credit to customers which will increase sales by Rs 7,00,000 with anticipated increase bad debt loss of 1% of sales.

Proposal II: To grant two month's credit to customers which will increase sales to Rs. 68,00,000 with anticipated increase bad debt loss of 2% of sales.

Proposal III: To grant three month's credit to customers which will increase sales to Rs. 75,00,000 with anticipated increase bad debt loss of 4% of sales.

Company expects a return of 20% on its variable cost only. Which of the above proposal would recommend to the company to accept? (15)

OR

Q2B. The following information is available in respect of material- (08)

Re order quantity – 2250 units
Re- order period – 4-6 weeks
Maximum Consumption – 600 units per week
Normal Consumption – 450 units per week
Minimum Consumption – 400 units per week

Calculate a) Re-order Level
b) Minimum Level
c) Maximum Level
d) Average Stock Level

Q2C. Calculate EOQ and Total Cost at EOQ level with the help of following information - (07)

1. Semi Annual Consumptions – 5000kgs
2. Carrying Cost 2% p. a. of Purchase Price
3. Storage cost – 100% of Carrying Cost
4. Ordering Cost – Rs 400 per order
5. Purchase Price – Rs 200 per kg

Q3A. From the following information available, calculate and comment on the same (15)

i. EPS
ii. Operating Leverage
iii. Financial Leverage
iv. Combined Leverage

Particulars	L	S
Selling Price per unit (Rs.)	37.50	50.00
Variable Cost per unit (Rs.)	25.00	37.50
Quantity (Units)	50,000	62,500
Fixed Costs (Rs.)	75,000	1,00,000

Interest (Rs.)	37,500	62,500
Tax Rate (%)	35	35
Number of Equity Shares	12,500	22,500

OR

Q3B. Jimmy Ltd. is considering methods to finance its investment proposal. It is estimated that initially Rs.20,00,000 will be needed. Two alternative methods of raising funds are available to the firm:

(a) 50% by 15% Loan and balance by issue of equity shares of Rs.1000 each

(b) Issue of equity shares of Rs.1000 each.

The appropriate tax rate is 25 per cent.

Assuming operating profits (EBIT) of: (a) Rs.2,80,000 and (b) Rs.3,20,000, which financing proposal would you recommend and why? (15)

Q4A. The expenses budgeted for production of 10,000 units in a factory are furnished below: (15)

	Per unit (Rs.)
Materials	120
Labour	60
Variable factory overheads	40
Fixed overheads	20
Variable overheads (Direct)	10
Selling Expenses (10% Fixed)	30
Distribution expenses (20% Fixed)	20
Administrative expenses	10
Total cost per unit	310

Prepare a budget for production of 16,000 units.

OR

Q4B. Prepare a Sales Overhead Budget for the months of January, February and March 2018 from the estimates given below – (15)

Advertisement – Rs 10,000 per month

Salaries of the Sales Department – Rs 20,000 per month

Expenses of the Sales Department – Rs 6,000 per month

Counter Salesmen's Salaries and Dearness Allowance – Rs 24,000 per month

Commission to counter salesmen at 1% on their sales per month

Travelling Salesmen's Commission at 10% on their sales and expenses at 5% on their sales on monthly basis

The sales during the period were estimated as follows –

Month	Counter Salesmen Sales (Rs)	Travelling Salesmen's Sales (Rs)
January	3,20,000	40,000
February	4,80,000	60,000
March	5,60,000	80,000

Q5. A. Discuss the need and importance of strategic financial management. (08)

B. Distinguish between financial leverage and operational leverage. (07)

OR

Q5 Write short notes on **any 3** (15)

1. Certificate of Deposits
2. Reorder Level and Safety Stocks
3. Advantages of debt financing
4. Commercial Papers
5. Motives for holding Cash

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