54BB I

Paper / Subject Code: 77909 / Financial Management II

[Time: 2:30 Hours] **[Marks:75]**

Please check whether you have got the right question paper.

N.B:
1. All Questions are Compulsory.
2. Each Question Carries 15 Marks.
3. Support your Answer with Required Working Notes.

Q.1 A) Match the Column **(any 8)** **[08]**

'A'	'B'
1. Larger scale of operation	a. Lesser working capital requirement
2. Letter of credit	b. Variability of EBT
3. Smaller scale of operation	c. More working capital requirement
4. Working capital finance	d. Economic order quantity
5. Tandon committee	e. Optimal cash balance
6. Cash exactly as per the requirement	f. MPBF
7. EOQ	g. Variability of EBIT
8. Consignment	h. Provided against inventories
9. Business risk	i. Short term source of finance
10. Financial risk	j. Supply of goods for sale

B) True Or False **(any 7)** **[07]**

1) Credit granted by suppliers reduces working capital requirement.
2) Temporary working capital keeps changing.
3) Trading on equity is used to increase EPS.
4) Reduced payment of dividend improves liquidity.
5) Commercial bills are short term source of finance.
6) Equity capital enjoys tax benefit.
7) "Tactical" management decisions relate to short-term positioning.
8) Budgeting also addresses the question of how a company can invest earning to achieve long-term goals more effectively.
9) The master budget is the sum total of all the divisional budgets.
10) Companies hold safety stock to guard against stock-out.

Q.2 A) From the following prepare Cash Budget for the period from 1st March 2018 to 31st August 2018 when the opening Cash Balance was Rs. 40,000. **[15]**

Month	Sales (RS)	Selling Expenses (RS)	Purchases (RS)	Wages (RS)	Factory Expenses (RS)	Administration Expenses (RS)
January	3,40,000	14,000	1,60,000	30,000	20,000	10,000
February	3,20,000	15,000	1,68,000	32,000	22,000	11,000
March	5,64,000	13,000	1,66,000	3,36,000	16,000	9,000
April	3,10,000	13,600	1,66,000	24,000	21,000	9,400
May	3,30,000	14,800	1,52,000	36,000	24,000	10,800
June	4,00,000	14,000	1,36,000	32,000	19,200	11,400
July	3,60,000	12,000	34,000	34,000	16,000	10,000
August	4,40,000	11,000	1,16,000	33,000	19,200	10,000

a) Period of credit allowed by suppliers and to customers 1 month.

b) Lag in payment of:

(i)	Wages	:	1 month
(ii)	Factory Expenses	:	1 month
(iii)	Administration Expenses	:	1 month
(iv)	Selling Expenses	:	1 month

c) Machinery purchased for Rs. 1,00,000 in March payable on delivery in April.

d) Building purchased in April Rs. 3,00,000 payable in two equal instalments in May and July.

e) Commission of3% on sales payable two months after sales.

OR

Q.2 B) A firm has a sale of Rs 1,50,00,000, variable cost Rs.84,00,000 and fixed cost of Rs 12,00,000. It has a debt of Rs 90,00,000 at 9 % and equity of Rs 1,10,00,000. What are the operating, financial and combined leverages of the firm? **[08]**

Q.2 C) The following information is available in respect of material – **[07]**
Re order quantity – 10000 units
Re order period - 4-6 weeks
Maximum Consumption - 2500 units per week
Normal Consumption -1800 units per week
Minimum Consumption - 750 units per week
Calculate Re - order level and Maximum Level.

Q.3 A) Pari Ltd manufactures apparels and sells them on credit basis through its authorized dealers. The present sale is Rs 60 Lakhs per annum with 45 days credit period. The company is contemplating an increase in sales. Present variable costs are 60% of sales and the total fixed cost is Rs 11 Lakhs per annum. The company expects pre tax return on total investment at 18%. Some other details are given as under: **[15]**

	Policy A	Policy B	Policy C
Increase in Credit Period (Days)	15	30	45
Increase in Sales (%)	50%	100%	150%
Tax Rate	25%	25%	25%

Required: Which credit policy should the company adopt? Assume 360 Days a year.

OR

Q.3 B) Meena Ltd has at present annual turnover of Rs. 75,00,000 and the company grants one month credit to its customers. Company's selling price is Rs.20/- per unit. Bad debt loss is 1.5% of sales and contribution is Rs6/- 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: **[15]**

Proposal I: To grant one and half month's credit to customers which will increase sales to Rs.100 lakhs with anticipated increase bad debt loss of 2 % of sales.

Proposal II: To grant two month's credit to customers which will increase sales to Rs. 125 lakhs with anticipated increase bad debt loss of3% of sales.

Proposal III: To grant three month's credit to customers which will increase sales to Rs. 150 lakhs with anticipated increase bad debt loss of 4% of sales.

Company expects a return of 15% on the additional investment in accounts receivables. Which of the above proposal would recommend to the company to accept?

Q.4 A) Calculate Operating cycle for Queen Ltd. **[08]**
Opening Inventory - Rs 12,00,000
Purchases - Rs 40,00,000
Closing Stock - Rs 10,00,00
Collection Period – 45 days
Assume one year to be 360 days.

B) Calculate EOQ level. Annual consumption 12000 units **[07]**
purchase cost Rs.12 per unit
carrying cost 10% per annum per unit
ordering cost Rs. 144 per order

OR

Q.4 C) From the following information prepare a working capital requirement. **[15]**
Production during the year is to be 1,44,000 units.
The expected ratio of cost to selling price are Raw material 60%, Direct wages 10%, Overhead20%. Raw materials are expected to remain in stores for an average of 2 months before issue to production. Each unit of production is expected to be in process for one month. Finished goods will stay in warehouse awaiting dispatch to customers for approximately three months .Credit allowed by Creditors is 2 months from the date of delivery of Raw materials. Credit given to Debtors is 3 months from the date of dispatch. Selling price is Rs.4/- per unit. There is a regular production and sale cycle. Provision for contingency is 10% on current assets.

Q.5 A) Discuss the need and importance of strategic financial management in the corporate world. **[08]**
B) Distinguish between operating and financial. **[07]**

OR

Q.5 Write short notes on: **(any three)** **[15]**
1) Sales budget
2) Combined leverage
3) Debt financing
4) Sources of working capital
5) Inventory management

****