M.Com.(Sem-IV) July-2023

ADV.ACCTG. & CORP.ACCT : Financial Management

Time: 2 Hours **Marks: 60**

Note: 1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Working note should be part of answer.

Q1. The following information relates to the productive activities of Reactive Ltd. for a month of January 2023. **[15]**

Particulars	**Rs.**
Variable Expenses [at 50% capacity]	
Direct Material	3,00,000
Direct Labour	3,20,000
Direct Expenses	45,000
	6,65,000
Semi-variable expenses [at 50% capacity]	
Plant Repairs	72,000
Indirect material	26,000
Salesman salaries	14,000
Sundry expenses	1,50,000
	2,62,000
Fixed Expenses :	
Depreciation	1,00,000
Office expenses	20,000
	1,20,000

It is further noted that semi-variable expenses remain constant between 40% to 70% capacity, increases by 20% of the above figures between 70% to 100% capacity.
Fixed expenses remain constant whatever the level of activity may be. Sales at 60% capacity are Rs. 12,00,000 and 80% capacity Rs. 17,00,000.
Assuming that all items produced are sold. You are required to prepare a flexible budget at 60% and 80% capacity.

OR

Q1. NRC Ltd is expected to have Rs. 25,000 cash in hand on 1st April 2023 and requires you to prepare an estimate of cash position during the three months- April, May and June. The following information is supplied to you: **[15]**

Month	Sales Rs.	Purchases Rs.	Wages Rs.	Factory Overheads Rs.	Administration Overheads Rs.	Selling overheads Rs.
February	1,20,000	55,000	10,000	5,000	2,500	1,250
March	1,50,000	65,000	12,000	6,000	3,000	1,000
April	125,000	75,000	8,000	6,000	3,500	1,200
May	1,10,000	85,000	8,000	7,000	4,000	1,700
June	1,60,000	45,000	12,000	7,000	4,500	1,500

Other Information:

1. Total sales comprise 10% cash sales and 90% credit sales.
2. 40% of credit sales are collected in the month following the sales and balance 60% in the second month.
3. Period of credit allowed by suppliers 2 months.
4. Delay in payment of all overheads – 1 month
5. Income tax of Rs. 30,000 is due to be paid on 15th June.
6. The company is to pay a dividend to shareholders and bonus to workers of Rs. 10,000 and Rs. 12,000 respectively in the month of April.
7. Wages are paid fortnightly with a time lag of 15 days.
8. The company is planning to buy a new machine costing Rs 30,000 in April 2023 and pay Rs. 15,000 in the month of May 2023 and remaining in the month of June 2023.
9. The company keeps a minimum balance of Rs. 25,000. Cash in excess of Rs. 25,000 is invested in fixed deposits in multiples of Rs. 1,000 and short fall in the minimum cash balance is made by overdraft from the bank. Ignore interest received/ paid on these accounts.

Q.2 The summary corporation is considering relaxing its present credit policy and is in the process of evaluating two proposed policies. Currently, the company has the annual credit sales of Rs. 30 lakhs and accounts receivable runover ratio 4 times a year. The Current level of loss due to bad debts is Rs. 80,000. The required rate of return is 25%. Given is the following information, which policy option is to be selected? **[15]**

Variable cost is 70% of sales. Assume 360 days in a year

Particulars	**Present policy**	**Policy option 1**	**Policy option 2**
Annual Sales	Rs. 30,00,000	42,00,000	45,00,000
Account receivable turnover	4 times	3 times	2.4 times
Bad Debts Rs.	80,000	1,50,000	2,50,000

OR

Q2. A company is considering a proposal of installing a drying equipment. The equipment would involve a cash outlay of Rs. **600,000** and net working capital Rs **80,000**. The expected life of the project is **5 years** without any salvage value. Assume that the company is allowed to charge depreciation on straight line basis for income tax purpose. The estimated cash flow before tax and depreciation are given below. **[15]**

Year	Cash inflow **[Rs. '000']**	PV factor 12%	PV factor 15%
1	200	0.89	0.87
2	250	0.8	0.76
3	220	0.71	0.66
4	240	0.64	0.57
5	240	0.57	0.5

The applicable income tax rate to the company 40%.
Find out NPV & IRR.

Q3. TISCO Ltd. provides you the following information: **[15]**

Purchase price of each machine	Rs.20,00,000
Life of machine	5 years
Tax Rate	40%
Cost of capital	10%

Earnings before depreciation and tax:

year	**Machine A**	**Machine B**	**PV @10%**
1	8,00,000	400,000	0.909
2	8,00,000	4,00,000	0.826
3	8,00,000	5,00,000	0.751
4	8,00,000	8,00,000	0.683
5	8,00,000	30,00,000	0.621

You are required to calculate Net Present Value for each machine.

OR

Q3 A]. Artifacts ltd. manufactures a special product 'XTP' and provides the following information. **[8]**

Demand for 'XTP' is 2000 units per month.
Inventory carrying cost 12% p.a.
Raw material required per unit of finished product 2kg.
Ordering cost per order Rs.50
Follow-up cost for each order Rs. 50
Purchase price of input unit Rs. 20 per kg.
Required: Calculate 1] Economic order quantity 2] Total Annual carrying cost 3] Total Ordering cost of that quantity.

B] A factory produced 20,000 units. The budgeted expenses are given below: **[7]**

Particulars	**Per Unit [Rs.]**
Raw Material	150
Direct Wages	125
Direct Expenses	25
Factory Overheads [50% variable]	30
Office Overheads [Fixed]	20
Selling and distribution overheads [75% Fixed]	10
Total Cost per unit	**360**

Prepare cost budget for 10,000 units

Q. 4 (A) Choose the most appropriate alternative and rewrite the sentence: (08)

1. Net working capital is equal to _________________________.
   a) Current Assets less Fixed Assets
   b) Current Liabilities less Current Assets
   c) Current Assets less Current Liabilities
   d) Current Assets less Quick Assets

2. For capital budgeting decisions ____________________.
   a) Depreciation is to be considered
   b) Depreciation is to be ignored
   c) Depreciation is to be calculated always at 15%
   d) Depreciation is considered as Cash Cost

3. ______________ is not an element of credit policy.
   a) Credit terms
   b) Collection policy
   c) Cash discount terms
   d) Sales Price

4. The Payback period is the period __________________________________.
   a) a project takes to payback the loan taken to purchase the capital assets
   b) equal to the useful life of the machine
   c) a project takes to recover its initial cash outflow
   d) over which the project will be getting operating cash flows

5. Commercial Paper is a type of ______________________.
   a) Fixed Coupon Bond
   b) Unsecured short-term Debt
   c) Secured long-term Debt
   d) Government Bond

6. Public deposits are ____________.
   a) Secured loans
   b) Shareholders' Equity
   c) Unsecured Loans
   d) Government security

7. Lead time refers to __________________________________.
   a) Work in progress time
   b) The time finished goods lie as inventories
   c) The period in which whole lot of inventory is consumed
   d) The time gap between placing of the order and procuring the material

8. The most important goal of strategic financial management is ________________.
   a) Corporate Social Responsibility
   b) Matching income and expenditure
   c) Matching Assets and Liabilities
   d) Wealth Maximization

Q.4 (B) MATCH THE GROUP: **(07)**

Column 'A'	Column 'B'
1. Capital Outlay	a) Saving Accountholders
2. Just-in-time	b) Qualitative statement
3. Debtors Turnover	c) Temporary Working Capital
4. Bill Discounting	d) Net credit sales and Average Trade Debtors
5. Fluctuating Working Capital	e) Current Accountholders
6. Overdrafts	f) Cost of project
7. Budget	g) Inventory control system
	h) Quantitative statement
	i) Sale of bill to a bank

OR

Q.4. Write shorts notes. (Any Three) **(15)**

1. Profit Maximization v/s. Wealth Maximization
2. ABC Analysis for Inventory Management
3. Profitability Index Method of Capital Budgeting
4. Sources of Credit Information
5. Short Term sources of Finance

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