

M.COM (Part - II)
Accountancy Group
Advance Financial Management
(Paper – III) (May-2017)

Q.P. Code :05072

[Marks:100]

Please check whether you have got the right question paper.

- N.BB:
1. Question No.1 and Question No.2 are compulsory carry 20 Marks and 16 Marks respectively.
 2. Attempt any 4 Questions from Question No.3 to Question No. 9 each carrying 16 Marks.
 3. Working notes should form part of your answer.
 4. Use of simple Calculations is allowed.
 5. Figures to right indicate full marks.

- Q1 Vijaynath wishes to raise additional finance of Rs. 20 lakhs for meeting its investment plans. The company has Rs. 4, 00, 000 in the form of retained earnings available for investment purposes. The following are the further details.
- a. Debt equity 25:75.
 - b. Cost of debt at the rate of 10% (before tax) upto Rs. 2,00,000 and 13% (before tax) beyond that.
 - c. Earnings per share Rs. 12.
 - d. Dividend payout 50% of earnings.
 - e. Expected growth rate in dividend 10%
 - f. Current market price in share Rs. 60.
 - g. Company's tax rate is 30% and shareholder's personal tax rate is 20%. You are required to:-
 - i. Calculate the post tax average cost of additional debt.
 - ii. Calculate the cost of retained earnings and cost of equity.
 - iii. Calculate the overall weighted average (after tax) cost of additional finance.

- Q2 A State whether the following statements are True or False.
1. Shareholders' Equity includes reserves.
 - 2 High fixed operating costs increase the financial leverage.
 - 3 Overall cost of capital decreases on payment of entire long term debt.
 - 4 Current ratio is used to comment on the long term solvency' position of the company.
 - 5 EOQ is the level of inventory at which total cost of ordering and carrying cost is minimal.
 - 6 Capital structure refers to sources of long term funds.
 7. Dividend to equity shareholders reduces tax liability.
 - 8 Trading on Equity is used to increase EPS.

B Match the following

| Group A | Group B |
|---------------------------------|--|
| 1. Acid Test Ratio | a. Efficiency of Collection department |
| 2. Cost which has been incurred | b. Maximise EPS |
| 3. Pledge | c. Goods in possession of Bank |
| 4. Payback Period | d. Sales |
| 5. Composite cost | e. WACC |
| 6. COGS + Gross Profit | f. Liquid Assets /Liquid liabilities |
| 7. Debtors Velocity | g. Time required to recover initial investment |
| 8. Optimum Capital Structure | h. Historical cost |

Q.P. Code :05072

- Q3** Debtor's velocity = 3 months
 Stock Velocity = 8 times
 G.P. Ratio = 25% on sales

Gross profit for the year is Rs. 1, 60, 000. There are no long – term loans or overdraft. Reserves and surplus amounted to Rs. 56, 000 and liquid assets are Rs. 2, 00, 000. Closing stock is Rs. 4,000 more than opening stock. Bills Receivable is Rs 10,000 and Bills payable Rs. 4000.

Compute:

- Sales
- Sundry Debtors
- closing Stock
- Bank Balance

- Q4** A company is contemplating to purchase a machine. Two machines A and B are available, each costing Rs. 5 lakhs. In comparing the Profitability of the machine, a discounting of 10% is to be used and machine is to be written off in five years by straight line Method of depreciation. Cash inflows after tax are expected as follows:

| Year | Machine A (Rs. in lakhs) | Machine B (Rs. in lakhs) |
|------|-----------------------------|-----------------------------|
| 1 | 1.5 | 0.5 |
| 2 | 2.0 | 1.5 |
| 3 | 2.5 | 2.0 |
| 4 | 1.5 | 3.0 |
| 5 | 1.0 | 2.0 |

Indicate which machine would be profitable, using the following methods of ranking investment proposal.

- i. Net Present Value (NPV) method ii. Profitability Index Method

The discounting factors at 10% are

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

- Q5** IPL Ltd. is deciding on the economic order quantity for two brands of fertilizers. Super grow and Deluxe Grow. The following information is collected.

| Particulars | Super Grow | Deluxe Grow |
|---|------------|-------------|
| Annual Demand | 2,000 Bags | 1,280 Bags |
| Relevant ordering cost per purchase order | Rs.1,200 | Rs.1,400 |
| Annual relevant carrying cost per bag | Rs. 480 | Rs.560 |

You are required to:

- Compute EOQ for super Grow & Deluxe grow.
- For the EOQ, what is the sum of the total annual relevant ordering costs and total annual relevant carrying cost for both fertilizers
- For EOQ, Compute the number of deliveries per year for both fertilizers

Q.P. Code :05072

- Q6** Himanshu Ltd. has a present annual sales level of 10,000 units at Rs. 300 per unit. The variable cost is Rs 200 per unit and the fixed costs amount to Rs 3,00,000 p.a. The present credit period allowed by the company is 1 month. The company is considering a proposal to increase the credit periods to 2 months and 3 months and has made the following estimates. **16**

| | Existing | Proposed | |
|-------------------|----------|----------|----------|
| Credit policy | 1 Month | 2 Months | 3 Months |
| Increase in sales | - | 15% | 30% |
| % of Bad-debts | 1% | 3% | 5% |

There will be increase in fixed cost by Rs. 50, 000 on account of increase of sales beyond 25% of present level. The company plans on a pre-tax return of 20% on Investment in receivables (based on total cost).

You are required to calculate the most profitable credit policy for the company.

- Q7** M/S subrakant stores has following Balance sheet as on 31st March, 2016 **16**

| Liabilities | Rs. | Assets | Rs. |
|-------------------------|-------------------|--------------|-------------------|
| Proprietor's capital | 1, 00, 000 | Cash | 20, 500 |
| | | Stock | 50, 500 |
| Outstanding liabilities | 17, 000 | Debtors | 26,000 |
| | | Fixed Assets | |
| | | Cost | 25,000 |
| | | Depreciation | 5,000 |
| Total | 1, 17, 000 | Total | 1, 17, 000 |

Sales and the expenditure on salaries are expected to be as under.

| | Sales(in Rs.) | Salaries (in Rs.) |
|-----------|---------------|-------------------|
| April | 30, 000 | 3,000 |
| May | 52,000 | 3,500 |
| June | 50,000 | 3,500 |
| July | 75,000 | 4,000 |
| August | 90,000 | 4,000 |
| September | 35,000 | 3,000 |

- Other Expenses- Rent Rs 1000 P.M.
-Sales commission – 1% of sales
-Miscellaneous Expenses Rs 500 P.M.
- Sales: 80% on credit and 20% for cash.
- Out of credit sales: 70% collected after one month and remaining in next month.
- Gross margin is 70% purchases equal to requirement of next month's sales are made for which payment against delivery.
- Debtors on 31st March 2016 included Rs. 20,000 for February and remaining for January.
- Cash on hand should be Rs. 10, 000 at all times. The deficiency to be met by short term loans and Surplus to be invested in securities.

Prepare cash Budget for April to August 2016 and ascertain the Borrowing to be made from time to time.

Q.P. Code :05072

Q8 Mac Ltd planning an expansion programmed which will require Rs. 30 crores and can be funded **16**
one of the three following options.

- Issue further equity shares of Rs 100 each at par.
- Raise loans at 15% interest.
- Issue preference shares at 12%

Present paid if Capital is Rs. 60 crores and average annual EBIT is Rs. 12 crores. Assume
Income Tax rate is 50% After the expansion EBIT is expected to be Rs. 15 crores per annual.

Calculate EPS under the three financing options to indicate the alternative giving the highest
returns (EPS) to the equity shareholders.

Q9 Write short Notes on **(Any Four)** **16**

- Functions of a chief Financial officer
- Current Ratio
- Classification of cost of capital
- Long-term sources of finance
- Factors Affecting working capital
- Net Present value Method