

Q1 (A) ①

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|---------------------------------|----------------------------------------------------------|
| <i>(i)</i> Core W.C. | <i>(vi)</i> all functional budgets |
| <i>(ii)</i> Equity shareholders | <i>(vii)</i> all of the above |
| <i>(iii)</i> EBIT/EBT | <i>(viii)</i> cost of placing order |
| <i>(iv)</i> Business risk | <i>(ix)</i> all of the above all of the above |
| <i>(v)</i> Strategy | <i>(x)</i> Bank deposits |

Q2 (B)

- (1) Budget :- future oriented plan
- (2) WIP :- stock of materials + 50% of wages & overheads
- (3) EOQ :- most economical size of order
- (4) PPF :- Tax saving scheme
- (5) Flexible budget :- Drawn for the multiple levels
- (6) Appreciation :- Growth in value
- (7) Commercial paper :- Regulated by RBI
- (8) Process of carrying plan skillfully :- Strategy
- (9) Positive W.C. :- Excess of C.A. over C.L.
- (10) Financial leverage :- Fixed interest securities.

Q2 (A)

Books of M/s Alpha Ltd

Step one :- Cost structure

Particulars	C.P.V.	WIP
Raw Material	5	5
Labour	3	1.5
Overhead	2	1
Total cost	10	7.5
(+) Profit	5	
Sale price	15	

(2)
Step two : Estimation of working capital requirement

Particulars	Calculations	Amnt(₹)
<u>(I) CURRENT ASSETS</u>		
Stock of Raw Material	$= 260,000 \times 5 \times 2/52$	50,000
Stock of WIP	$= 260,000 \times 7.5 \times 2/52$	75,000
Stock of finished goods	$= 260,000 \times 10 \times 2/52$	1,00,000
Sundry debtors	$= 260,000 \times 15 \times 4/52$	3,00,000
Cash & Bank balance		25,000
	Total (I)	5,50,000
<u>(II) CURRENT LIABILITIES</u>		
Sundry creditors	$= 260,000 \times 5 \times 2/52$	50,000
Outstanding wages	$= 260,000 \times 3 \times 2/52$	30,000
Outstanding overheads	$= 260,000 \times 2 \times 2/52$	20,000
	Total (II)	1,00,000
Net working Capital (I-II)		4,50,000

OR

Q2(B)

CASH BUDGET

Particulars	April	May	June
Opening Cash Balance	60,000	59,000	61,000
<u>Add:- CASH RECEIPTS</u>			
(a) Collection from debtors			
→ 20% in same month	32,000	34,000	36,000
→ 80% in following month	120,000	128,000	136,000
(b) Advance for sale of vehicle	—	—	90,000
Total Cash Receipts	2,12,000	2,21,000	3,23,000
<u>Less:- CASH PAYMENTS</u>			
(a) Payment to creditors	90,000	92,000	1,00,000
(b) Payment for wages			
→ $\frac{3}{4}$ in same month	24,000	27,000	30,000
→ $\frac{1}{4}$ in following month	7,500	8,000	9,000

(c) Payment for overheads			
$\frac{1}{2}$ in same month	10,000	11,000	11,500
$\frac{1}{2}$ in following month	9,500	10,000	11,000
(d) Instalment payment	12,000	12,000	12,000
(e) Dividend on pref. shares	-	-	60,000
(f) Payment for Income tax	-	-	20,000
Total cash payments	1,53,000	1,60,000	2,53,500
closing cash balance.	59,000	61,000	69,500

Q3 (A)

Evaluation of Credit Policies.

Particulars.	Present policy	Proposed Credit Policy		
		I	II	III
Average collection Period	30 days	45 days	60 days	75 days
(1) Sales	50,00,000	56,00,000	60,00,000	62,00,000
(2) <u>less</u> :- variable cost	40,00,000	44,80,000	48,00,000	49,60,000
(3) contribution	10,00,000	11,20,000	12,00,000	12,40,000
(4) <u>less</u> :- Fixed cost	6,00,000	6,00,000	6,00,000	6,00,000
(5) Benefit / EBIT	4,00,000	5,20,000	6,00,000	6,40,000
(6) Investment in Receivables	46,00,000	50,80,000	54,00,000	55,60,000
(7) Receivable Turnover $\left\{ \frac{360}{\text{Credit}} \right\}$	12	8	6	4.8
(8) Avg. Inv. in Receivables	3,83,333	6,35,000	9,00,000	11,58,333
(9) <u>less</u> :- Opportunity cost- {20% on (8)}	76,667	12,70,000	1,80,000	2,31,667
Net Benefit (5-9)	3,23,333	3,93,000	4,20,000	4,08,333
Net Incremental Benefit	-	69,667	96,667	85,000

Conclusion & suggestion:- Company would earn more, if they give 60 days of credit to their customers.

OR

Q3(B)

④

Flexible Budget

Particulars	10,000 units		15,000 units		20,000 units	
	CPU	Amt(₹)	CPU	Amt(₹)	CPU	Amt(₹)
<u>(I) VARIABLE COST</u>						
Raw Material	75	7,50,000	75	11,25,000	75	15,00,000
Direct Labour	20	2,00,000	20	3,00,000	20	4,00,000
Direct Expenses	25	2,50,000	25	3,75,000	25	5,00,000
Overheads	15	1,50,000	15	2,25,000	15	3,00,000
Selling Exp (90%)	13.5	1,35,000	13.5	2,02,500	13.5	2,70,000
Dist. Exp. (75%)	15	1,50,000	15	2,25,000	15	3,00,000
Total (I)		16,35,000		24,52,500		32,70,000
<u>(II) FIXED COST</u>						
Fixed overheads	40	4,00,000	26.7	4,00,000	20	4,00,000
Adm. overheads	20	2,00,000	13.3	2,00,000	10	2,00,000
Selling Exp.	3	30,000	2	30,000	1.5	30,000
Dist. Exp.	10	1,00,000	6.67	1,00,000	5	1,00,000
Total (II)		7,30,000		7,30,000		7,30,000
Total cost (I+II)		23,65,000		31,82,500		40,00,000

Q4(A)

INCOME STATEMENT

Particulars	JACK	WILL
(1) Sales	2,25,000	3,20,000
(2) <u>less</u> - variable cost	75,000	80,000
(3) Contribution	1,50,000	2,40,000
(4) <u>less</u> - fixed cost	1,20,000	2,00,000
(5) EBIT	30,000	40,000
(6) <u>less</u> - Interest Charges	20,000	30,000
(7) EBT	10,000	10,000
(8) <u>less</u> - Tax @ 35%	3,500	3,500
(9) PAT	6,500	6,500

5 Working Note:-

(1) Financial leverage = $\frac{EBIT}{EBT} = \frac{EBIT}{EBIT - Int}$

∴ For Jack

$$3 = \frac{x}{x - 20000}$$

$$x = ₹ 30000$$

For Will

$$4 = \frac{x}{x - 30000}$$

$$x = ₹ 40000$$

(2) Operating leverage = $\frac{\text{Contribution}}{EBIT}$

For Jack

$$5 = \frac{C}{30000}$$

$$C = 150,000$$

For Will

$$6 = \frac{C}{40000}$$

$$C = 240,000$$

(3) Variable cost = % of sales

∴ Contribution = % of sales

For Jack

$$C = 66\frac{2}{3}\% \text{ of sales}$$

$$\frac{150,000}{66\frac{2}{3}\%} = \text{Sales}$$

$$\therefore \text{Sales} = ₹ 225,000$$

For Will

$$C = 75\% \text{ of sales}$$

$$\frac{240,000}{75\%} = \text{Sales}$$

$$\text{Sales} = ₹ 320,000$$

OR

Q4(B) $EOQ = \sqrt{\frac{2AO}{PC}}$

$$= \sqrt{\frac{2 \times 12000 \times 20}{100 \times \frac{12}{100}}}$$
$$= \sqrt{40000}$$

[12 tonnes = 12000 kgs]

$$\therefore EOQ = 200 \text{ units}$$

6

Sl No	1	2	3	4	5	6
	Annual requirement	Size of order	no. of orders (1) ÷ (2)	Procurement cost (3) × ₹ 20	Holding cost (2) × $\frac{1}{2}$ × 100 × $\frac{12}{100}$	combined cost (4) + (5)
1	12000	50	240	4800	300	5,100
2	12000	100	120	2400	600	3000
3	12000	<u>200</u>	60	1200	1200	2400
4	12000	400	30	600	2,400	3,000
5	12000	500	24	480	3000	3,480

at $EOQ = 200$, the annual procurement & carrying cost is minimum.