[illegible] Financial mgmt
Sem (3) [illegible]

Q 1 A) Statement showing working capital Requirement

PARTICULARS		AMOUNT
Current Assets		
(1) Stock of Raw material 5000 × 6 × 1.5		45,000
(2) Work in Progress		
Raw material 5000 × 6 × 1 =	30,000	
Labour 5000 × 4.50 × 1 × 1/2 =	11,250	
Overheads 5000 × 1.5 × 1 × 1/2 =	3750	45,000
(3) Finished goods 5000 × 12 × 2		1,20,000
(4) Debtors 5000 × 15 × 2		1,50,000
(5) Cash and bank		194,000
Total Current Assets →		5,54,000 (A)
Current liabilities		
Creditors 5000 × 6 × 1		30,000
Total liab (current)		30,000 (B)
CA (-) CL = working capital		5,24,000

[illegible]) Objectives of financial mgmt
[illegible] utilization of funds — wealth maximization — [illegible]
[illegible] — Cost reduction — [illegible]
[illegible] — Break even Point
[illegible]

Q 1(B) All Amounts in Rs. lakhs

PARTICULARS	Current 20 days Credit	Proposed 40 days Credit
Sales	60	70
(-) Variable cost 70%	42	49
Contribution	18	21
(-) fixed cost	8	8
Profit (A)	10	13
Total cost (VC + FC)	50.	57.
Avg Investment in debtors	$50 \times \frac{20}{360}$	$\frac{57}{40} \times \frac{40}{360}$
	= 2.78	= 6.33
Cost: Opportunity cost	$2.78 \times \frac{25}{100}$	$6.33 \times \frac{25}{100}$
(B)	0.695	1.58
Net benefit A − B	9.305	11.42

The company should extend credit to 40 days since Net benefits increases by 11.42 − 9.305 = 2.115 lakhs

---

Q 2(A) Theory components of working capital

In detail contents of current assets and current liabilities.

Q1 B WACC calculation

Set (2)

Source	Amount	weight	Cost	WACC
equity	80,00,000	40	27%	10.8
Preference	20,00,000	10	10%	1.00
Old Debt	60,00,000	30	@ 4%	2.52
New debt	40,00,000	20	9%	1.8
	200,00,000	100	WACC:	16.12 %

Q 12

Sales	300,000
(-) VC	200,000
Contribution	100 000
(-) Fixed cost	30,000
EBIT	70,000
(-) Interest	15,000
EBT	55,000
(-) Tax @ 40%	22000
EAT	33,000

3 mks

OL = Cont / EBIT

$\frac{100,000}{70,000} = 1.43$ (1 1/2)

FL = EBIT / EBT.

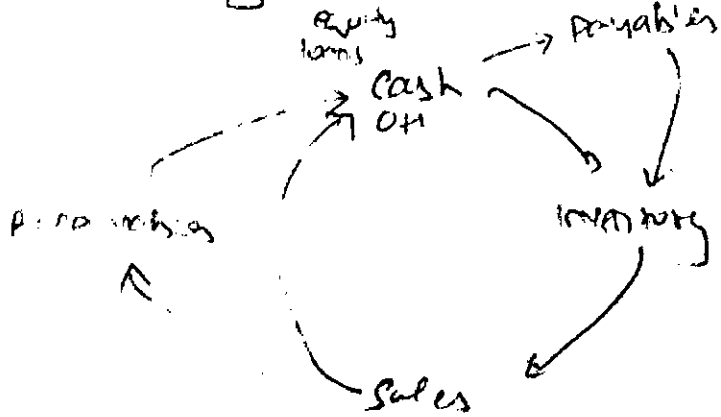
$\frac{70,000}{55000} = 1.27$ (1 1/2)

EPS = $\frac{33000}{5000}$ 6 6 (1 1/2)

$\frac{EAT}{No\ of\ shares}$

Q2

Q3 B Cash Operating cycle



Cycle from purchase of inventory to realization of cash from sales to be explained.

Q3 c Short note on cost of debt PS 2A
cost of equity Set (2)
cost of retained earnings → opportunity cost.

Q3 A Analysis of Sales

	November	December	January	February	March
Total Sales	130,000	150,000	90,000	126,000	98,000
Cash sale	26000	30,000	18000	25200	19600
Credit	104,000	120,000	72000	100,800	78,400

Sales Receipts

Cash sales	after 2% discount	17640	24,696	19208
Credit sale Receipt	52000	52000	60,000	36000
		60,000	36,000	50,400
Total Cash Rcpt		129,640	120,696	105,608

Cash Budget

	Jan	Feb	March
Opn balance	5000	15640	15336
(+) Rcpt from sales	129640	120.696	105,608 (Inflow)
Total	134,640	136,336	122444
Expenses			
Purchases	110,000	114000	116000
Misc exp	9000	7000	14000
Income tax	-	-	21500
Total payment	119000	121000	151500
Closing bal	15640	15336	(-) 29056

Payback Period

Project X
Investment : Rs 200,000.

PB: $2 + \frac{85,000}{90,000} : 2.94$ years

Project Y.

$2 + \frac{22,000}{40,000} = 2.55$ years

4 marks — Select 'Y' as per payback Period.

Project X

Yr	CFAT	@ 10%	PVFCI
1	35,000	0.91	31,850
2	80,000	0.83	66,400
3	90,000	0.75	67,500
4	75,000	0.68	51,000
5	20,000	0.62	12,400
	Total PVFCI		229,150
	(-) Outflow		200,000
	NPV		29,150

Project Y.

CFAT	@ 10%	PVFCI
118,000	0.91	107,380
60,000	0.83	49,800
40,000	0.75	30,000
14,000	0.68	9,520
13,000	0.62	8060
Total PVFCI		204,760
Outflow		200,000
NPV:		4760

Select Project 'X' as per NPV and Index.

PI $\frac{229,150}{200,000} = 1.14$

$\frac{204,760}{200,000} = 1.02$