M.Com [Part – II]
-: Accountancy Group :-
Advance Financial Management
(Paper- III) ***(DEC- 2017)***

Q.P. Code :05071

[Marks:100]

Please check whether you have got the right question paper.

N.B:
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 forms part of your answer.**
4. **Use of simple Calculations is allowed.**
5. **Figures to right indicate full marks.**

Q1 The cool – spot enterprise can make either of two investments at the beginning of year 2010. Assuming a required rate of return at 10% p.a., evaluate the investment proposal under: 1. Net present value method (NPV) 2. Profitability index. The forecast particulars are given below: **20**

PARTICULARS	PROPOSAL A	PROPOSAL B
Cost of investment	(Rs.) 20,000	(Rs.) 28,000
Life (years)	4	5
Scrap value	Nil	Nil
	Net income (after depreciation and tax):	
Year	Rs.	Rs.
2010	500	Nil
2011	2,000	3,400
2012	3,500	3,400
2013	2,500	3,400
2014	-----	3,400

It is estimated each of the alternative projects will require additional working capital of Rs. 2,000 which will be received back in full after the expiry of each project life. Depreciation is provided under the straight line method. The present value of Rs. 1 is to be received at the end of each year, at 10% p.a. is given below:

Year	1	2	3	4	5
P.V	0.909	0.826	0.751	0.683	0.621

Q2 A Match the most appropriate pair and rewrite: **08**

COLUMN A	**COLUMN B**
1. Capital budgeting	a. Overall profitability
2. Annuity	b. Weighted Average Cost of Capital
3. Return on Investment	c. Minimum working capital
4. Operating leverage	d. Earnings before Interest and Tax/Earnings before Tax
5. Composite cost	e. Stream of constant cash flows occurring at regular intervals
6. PPF	f. Financing of receivables
7. Factoring	g. Maximum working capital
8. Permanent Working Capital	h. Finance function
	i. Tax saving scheme
	j. Contribution/Earnings before interest and tax

B State whether the following statements are True or False (Reason not required.) **08**

1. Primary object of financial management is wealth maximisation.
2. The accept reject decision can occur when two projects can compete each other.
3. Net working Capital is equal to total current assets.
4. Traditionally optimal capital structure is assume a point where WACC is Maximum.
5. One of the importances of ABC analysis is that the cost of ordering is reduced.
6. In evaluation of credit policies Debtors are valued at cost.
7. A company can raise debentures for a long period but has to make sure it dilutes its control.
8. Capital rationing is done when limited funds are available for investments.

Q3 'Levon power' ltd. has the following capital structure: **16**

	Rs. In lakhs
Equity share capital	28
10% 'A' Preference share capital	35
12% Debentures	17
Total	80

The market price of the company's equity share is RS. 28. It is expected that the company would next year pay a dividend of Rs. 3.50 per share on the face value of Rs. 10. The company's growth prospects are 6% p.a.
Assuming corporate taxation @34%. You are required to:

i. Compute weighted average cost of capital based on the existing capital structure

ii. Compute new weighted average cost of capital if the company raises additional capital of Rs 60 Lakhs as under:

	Rs in Lakhs
Equity share Capital	17
12% 'B' Preference shares	25
14% Debentures	18
TOTAL	60

This would result in increasing the expected dividend to Rs 4 per Equity shares and leave the growth rate unchanged at 6%, but the anticipated market price of the equity shares would fall to Rs 25.

Q4 Monetery Ltd. wants you to prepare the Cash budget of the company for the three months, July to September 2016. Following information is supplied to you. **16**

	Sales (Rs.)	**Purchase (Rs.)**	**Wages (Rs.)**	**Other expenses (Rs.)**
April	60,000	20,000	15,000	10,000
May	50,000	20,000	15,000	10,000
June	80,000	40,000	15,000	15,000
July	1,00,000	50,000	25,000	20,000
August	1,40,000	70,000	25,000	20,000
September	160000	60,000	30,000	20,000

1. Sales are 20% cash and the balance at Two months credit; Purchases are at one month credit subject to cash discount of 5%.
2. Wages are paid ½ months is arrear and other expenses are paid one months in arrears.
3. During August the company pays a dividend of 15% on its equity capital of Rs. 2,00,000 and during September paid Rs. 25,000 for instalment of plant purchased.
4. It is expected that the end of June 2016 there will be cash balance of Rs. 14,000.

Q5 'Unicorn ltd.' has a present annual turnover of Rs. 19,50,000 and the company grants 1 month's credit to its customers. Company's selling price is Rs. 10 per unit. Bad debts loss is 1% of sales and contribution is Rs. 3 per unit. Assume all sales are on credit basis. Company's new marketing manager has given three different proposals to make credit policy more liberal to increase company's sales and profits. These proposals are as follows: **16**

Proposal I: To grant 1 ½ months credit to customers, which will increase sales to Rs. 22,00,000 with anticipated bad debts loss at 2% of sales.

Proposal II: To grant 2 months credit to customers, which will increase sales to Rs. 22,50,000 with anticipated bad debts loss at 3% of sales.

Proposal III: To grant 3 months credit to customers, which will increase sales to Rs.25,00,000 with anticipated bad debts loss at 5% of sales.

Company expects a return of 20% on the additional investment in accounts receivables (based on variable cost) Which of the above proposals would you recommend to the company to accept? Show your working for decision marking.

Q6 XYZ Ltd. has applied to Bank of India, for its working capital requirements. The following information is available about the current year. **16**

Estimated level of activity 2,60,000 units (52 WEEKS). Based on the above activity estimated cost per unit is:

Particulars	**Per Unit**
Raw material	Rs.5
Direct Labour	Rs.3
Overheads	Rs.2
Total cost	Rs.10
Add profit	Rs.5
Selling price	Rs.15

1. Raw material remains in stock for 2 weeks and Production cycle takes 2 weeks.
2. Finished goods remaining in stock for 2 weeks.
3. 2 Weeks credit is allowed by suppliers.
4. 4 weeks credit is allowed to debtors.
5. Time Lag in payment of Labour and overheads is 2 weeks.
6. Cash and Bank balance to be maintained Rs. 25,000.
7. Assume that productions are evenly spread throughout the year.
8. Debtors are to be estimated at selling price.

Find out: (1) The amount of Net Working Capital
(2) The Maximum Permissible Bank Finance under First and Second methods of Financing as per Tandon Committee norms.

Q7 From the following find out the missing figures and prepare a Balance Sheet as on 31st march 2016. The Balance sheet consists of fixed assets and current assets while current liabilities comprise of bank credit (Bank overdraft) and trade credit (creditors) in the ratio of 2:1. **16**

Current ratio	1.5
Acid ratio	0.9
Reserves and surplus to cash	3
Gross margin	20%
Share capital	Rs. 1,99,500
Working capital (current assets less current liabilities)	Rs. 45,000
Inventory turnover	6 times
Average collection period	2 months

Bank credit is to be treated as quick liabilities. There are no investments and long term loans. Current assets consist of cash, debtors and stock only.

Balance sheet as for 31st March, 2016

Liabilities	**Rs.**	**Assets**	**Rs.**
Share capital	?	Fixed assets	?
Reserves and surplus	?	Current assets: Cash ? Debtors ? Stock ?	?
Current liabilities:			
Bank overdraft ?			
Creditors ?	?		
Total	?	Total	?

Q8 From the following information available of two companies 'A' and 'B' Ltd. calculate: **16**

i. Operating leverage
ii. Financial leverage, and
iii. Combined leverage, of A and B Ltd.

	A Ltd	**B Ltd**
Selling price per unit Rs.	3	5
Variable cost per unit Rs.	25% of sales	10% of sales
Quantity sold	40,000	20,000
Fixed costs Rs.	20,000	20,000
Interest Rs.	40,000	15,000
Tax rate %	40	40

Q9 Write short notes **(Any Four)** **16**

1. Objectives of Financial management
2. Types of Leverages
3. Working capital cycle
4. Payback period
5. ABC analysis
6. Various forms of investments