M.Com. (Part - II)

-: Accountancy Group :-

Advance Financial Management

(Paper-III)

{April – 2016}

Q.P. Code : **24466**

(3 Hours) [Total Marks : 100

N.B. : (1) Question **No.1** and Question **No.2** are Compulsory carry **20 Marks** and **16 Marks** respectively.

(2) Attempt **Any Four** questions from Question **No.3** to **9** each carrying **16 Marks**.

(3) **Figures** to the **Right** indicates **Full Marks**.

(4) **Working notes** forms part of an **answer**.

(5) Use of simple **Calculator** is permitted.

1. Panther claw productions Ltd. wants to introduce a new product with estimated Life of 5 years. The Manufacturing equipment will cost ₹ 2,50,000, with the scrap value of ₹15,000 at the end of 5 years. The Working capital requirement is ₹20,000 which will be released after 5 years. **20**

The annual cash inflow and PV factor @ 10% are :

Years	PV Factor	₹
1	0.9091	1,25,000
2	0.8264	1,50,000
3	0.7513	1,87,500
4	0.6830	1,80,000
5	0.6209	1,12,500

The depreciation to be charged under Straight line method. Tax applicable @ 40%. Evaluate the proposal under :

(1) N. P. V.

(2) Profitability index.

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2. (a) Match the most appropriate pair and rewrite : **8**

Column A	Column B
(a) Objectives of financial management	(1) Discounting cash flow
(b) Discounting	(2) Wealth maximization
(c) Finance	(3) Overall efficiency
(d) Interest on Debentures	(4) Cost of a specific source of capital
(e) Specific cost	(5) Tax benefits
(f) Return on capital employed	(6) Current Assets Less Current Liabilities
(g) Working capital	(7) Weighted average cost of capital
(h) Operating leverages	(8) Contribution / EBIT
	(9) Life blood of business organisation
	(10) EBIT / EBT

(b) State whether the following statements are **True** of **False** (Reason not required) : **8**

(1) All sources of capital have the same cost.
(2) Gross working capital means, amount of Total current assets.
(3) Financial leverages are the change in EPS due to change in sales.
(4) MM approach is essentially, "Net operating income approach".
(5) "Net present value", is the best method of evaluation of Capital Budgeting project.
(6) Trading on equity is used to increase E.P.S.
(7) Lower Liquidity Ratio shows Bad Liquidity position.
(8) Bonus Shares are issued to the Debentureholders.

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3. The 'Wilson & Clinton' Company has the following capital structure at 31st March 2014, which is considered to be optimum : **16**

	₹
13% Debenture	3,60,000
11% preference share capital	1,20,000
Equity share capital (2,00,000 shares)	19,20,000

The company's share has a current market price of ₹ 27.75 Per share. The expected dividend per share in next year is 50% of the Year 2014 EPS. The growth rate is 12%.

The company can issue 14% new Debenture. The company's Debenture is currently selling at ₹ 98. The new preference issue can be sold at a net price of ₹ 9.80, paying a dividend of ₹ 1.20 per share. The company's marginal tax rate is 50%. The existing capital structure assume to be optimum.

Calculate the after tax cost of :

(a) New Debts and new Preference share capital.

(b) Ordinary equity, assuming new equity comes from Retained earnings.

(c) Calculate the Marginal cost of capital.

4. The 'Alpha formal' company making for a stock in the first quarter of the year is assisted by its Bankers with overdraft accommodation. The following are the relevant Budgeted figures : **16**

Months	**Sales (₹)**	**Purchases (₹)**	**Wages (₹)**
November	1,20,000	83,000	9,800
December	1,28,000	96,000	10,000
January	72,000	1,62,000	8,000
February	1,16,000	1,64,000	4,000
March	84,000	1,79,000	10,400

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Budgeted cash at Bank, 1st January, 2014 was ₹17,200. Credit terms of sales on payment by the end of the month following the month of supply. On an average, one-half of sales are paid on due date while the other half is paid during the next month. Creditors are paid during the month following the month of supply.

You are required to prepare a cash budget for the quarter, 1st January to 31st March, 2014 showing the budgeted amount of bank facilities required at each month.

5. The 'Yellow dart' 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 ₹25 lakhs and accounts receivable turnover ratio of 4 times a year. The current level of loss due to bad debts is ₹7,50,000. The required rate of return is 25% on Investments. The company's variable cost is 70% of selling price. Given is the following information, which policy option to be selected? (Assume in a year 12 months) **16**

	Present Policy	**Policy Option 1**	**Policy Option 2**
Annual Sales ₹	25,00,000	30,00,000	33,75,000
Account Receivable turnover	4 times	3 times	2.4 times'
Bad Debts ₹	75,000	1,50,000	2,25,000

6. A newly formed company has applied to Lena Bank, for the first time for its working capital requirements. The following information is available about projections for the current year. **16**

Estimated level of activity 1,04,000 units of production. Based on the above activity, estimated cost per unit is :

Raw Marterial	₹	80/- per unit
Direct wages	₹	30/- per unit
Overheads	₹	60/- per unit
Total Cost	₹	170/- per unit
Selling Price	₹	200/- per unit

Other information :

(1) Raw material in stock : average 4 week's consumption.
(2) Work-in progress for 2 weeks. Materials are introduced at the beginning of production cycle. Wages & Overheads are taken at 50%.
(3) Finished goods for average 8 weeks.
(4) Credit allowed by the suppliers average 4 weeks.
(5) Credit allowed to the Debtors average 8 weeks.
(6) Time lag in payment of wages average 1.5 weeks.
(7) Cash at bank expected to be ₹ 25,000.

Assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All the sales are on credit basis only. Debtors are valued 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.

7. From the following find out the missing figures and rewrite the Balance Sheet : **16**

Current ratio 2:1
Acid test ratio 5:3
Reserves and surplus are 50% of equity share capital
Long term Debts are 60% of Equity
Stock turnover ratio 10 times
Gross profit ratio on sales 20%
Sales are ₹ 15,62,500 (25% cash sales and balance on credit)
Closing stock is ₹ 50,000 more than the opening stock.
Accumulated depreciation is 1/6th of the original cost of Fixed Assets.

Balance Sheet as for March, 2007

Liabilities	**Rs.**	**Assest**	**Rs.**
Equity share capital	?	Fixed assets (at cost)	?
Reserves and Surplus	?	Less : accumulated depreciation	?
Long term loans	9,00,000	Stock	?
Bank overdraft	50,000	Debtors	2,00,000
Creditors	?	Cash	?
Total	?	**Total**	?

8. Prepare income statements from the data given below for P & Q companies: **16**

	P	**Q**
Variable cost as a % of sales	50%	60%
Interest	₹ 45,000	₹ 20,000
Degree of operating leverage	5:1	4:1
Degree of Financial leverage	4:1	5:1
Income Tax Rate	50%	50%

(1) Compute net profit (after tax) for the two companies.

(2) Calculate : (a) Operating Leverage
(b) Financial Leverage
(c) Combine Leverage

9. Write short notes (**Any Four**) : **16**
   (1) Function of Finance.
   (2) Combine Leverages.
   (3) Sources of working capital.
   (4) N.P.V.
   (5) Inventory management.
   (6) Investments objectives.