Advanced Accounting, Corporate Accounting and Financial Management:

Financial Management

SECTION I

Q.1 Select the appropriate answer from the following (30 Marks)

1 Which of the following securities is always irredemable

a) Bank Loan
b) Equity Capital
c) Preference Capital
d) Debentures

2 NPV of project W, X, Y & Z is [Rs. 5,000], Rs. 38,000, Rs. 40,000 and Rs. 32,000 respectively. The project which is to be rejected is ____________.

a) W
b) X
c) Y
d) Z

3 Strategy focuses on

a) Long term planning
b) Short term planning
c) Medium term planning
d) Long and short term planning

4 Liquidity means

a) Current assets - current liabilities
b) Long term solvency position of the business
c) Ability of the business to pay its debt
d) Cash & Bank Balances

5 Which of the following best defines the Master Budget

a) It is the budget prepared by financial management experts
b) It is the budget which gives direction for next 5 year's annual budget
c) It comprises of all the functional budgets
d) Writing the Budget

6 Which of the following is not the function of a Budget committee

a) Review of general policies
b) Examining budget reports
c) Recommending corrective actions
d) Preventing net operating losses

7 Maximum level of stock means

a) Maximum quanity to be ordered
b) Minimum quantity to be ordered
c) Maximum consumption in a specified period
d) Not to exceed amount used for inventory

8 Which of the following best describes the relationship between ordering cost and holding cost.

a) Both have positive relationship
b) Both have negetive relationship
c) Both have direct relationshhip
d) Both have indirect relationship

9 Cost of goods sold Rs.4,00,000. Average stock 25,000. Material turnover ratio will be ________ times.

a) 12
b) 10
c) 16
d) 8

10 Opening stock Rs.70,000. Closing stock Rs.1,10,000. Average stock = _______.

a) 120000
b) 70000
c) 80000
d) 90000

11 Purchase of Material Rs. 90,000 , Opening stock of material Rs.25,000, Closing stock of material Rs. 15,000. Cost of material consumption ?

a) 100000
b) 120000
c) 90000
d) 80000

12 At 80% capacity the varibale cost per unit was Rs.5 per unit. So for 100% capacity the variable cost per unit will be ___

a) Rs.5 per unit
b) Rs.4 per unit
c) Rs.6 per unit
d) Rs.10 per unit

13 Production at 60% activity is Rs 600 units, if flexible budget needs to be calculated at 80% activity what will be units produced?

a) 600
b) 800
c) 1000
d) 1200

14 Fixed cost Rs.20,00,000, Variable cost Rs.4,00,000. Credit period 3 mths. ROI 20%. The cost of investment in debtors will be Rs.________.

a) 1,20,000
b) 4,80,000
c) 6,00,000
d) 2,40,000

15 Current assets Rs.6,00,000. Current liabilities Rs.2,00,000. Margin of safety at 10% on Gross current assets. Working capital will be Rs. ________.

a) 6,40,000
b) 4,40,000
c) 6,60,000
d) 4,60,000

SECTION B

Q.2. ABC Company is considering two options soothing to its current credit policy. Currently the company is having credit sales of 50 lakhs and Accounts Receivable Turnover Ratio is 4. Considering the bad debta of 1.5lakh and required rate of return as 25% on investment in Debtors at cost, suggest the better option.

Particulars	**Present policy**	**Option 1**	**Option2**	
Sales (70% Variable Cost)	5000000	6000000	6750000	
Credit Period	3	4	5	
Bad Debts	150000	300000	450000	(10 Marks)

OR

Q.2 XYZ ltd is considering the new project.

Initial cost of the project is Rs.500000 and Discount rate 11%

Cash flow for the 6 years are as follows

Year	**Cash Flow**	**P.V.F**
1	100000	0.9009
2	110000	0.8116
3	120000	0.7312
4	130000	0.6587
5	140000	0.5934
6	150000	0.5346

Calculate NPV, Profitability index and Discounted Payback period.

(10 Marks)

Q.3 1 unit of X requires 5 units of raw material.

Total production for the year of X is 10000 units.

Purchase price of raw material is 100 per unit.

Holding cost of material is 5% per unit.

Transportation cost per order is Rs 1000.

Company pays Rs 200 commission to the agent per order.

Currently company places an order which is half of the annual requirement at a time.

Company receives 10% discount for its current order size which will not be available, if company reduces the order size.

Whether company shall stick to its current order size or company shall adopt EOQ

(10 Marks)

OR

Q.3 LMN Ltd have furnished following information.

Production for the current year - 50000 units

Material cost - Rs 30 per unit

Wages - Rs 20 per unit

Production Overheads - Rs 15 per unit

Fixed Administrative Overheads - Rs 10 per unit

Fixed Selling Overheads - Rs 200000

For the upcoming year, following information is available

Estimated production - 60000 units

Due to inflation, there is going to be an increase in the cost as follows:

Material by 10%

Wages by 15%

All the overheads by 5%

Calculate the Cost budget for total as well as per unit basis (10 Marks)

Q.4 Prepare cash budget for the quarter ending on March 2022 from the following information.

Opening cash balance Rs 50000

Actual Sales

November	120000
December	100000

Estimated Sales

January	140000
February	120000
March	130000
April	120000

1) Purchase cost is 60% of sales.
2) Purchases are made to fulfill the demand of next month's sales

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3) 50% of the purchases are on cash basis and remaining amount is paid in the next month.
4) 20% of sales are on cash basis. 50% of the remaining amount is paid in next month and rest in the following month.
5) Rent paid Rs 5000 every month.
6) Administrative overheads are 10% of the sales and are paid with 15 days time lag.
7) Advance tax Rs 20000 is paid in the month of March 2022.
8) 5000 new equity shares with face value Rs 10 were issued with a premium of Rs 2 per share in January 2022.
9) Wages amounts to 20% of sales and are paid in the following month.

OR

Q.4. Answer any two of the following (10 Marks)

1) Calculate EOQ and total ordering and Carrying Cost

Annual Requirement 10000 units

Ordering cost Rs 500 per order

Holding cost Rs 2 per unit

2) PQR Ltd gives you following information

Calculate Reorder level, Minimum Level, Maximum Level, Average stock level

Normal usage 200 per week

Maximum Usage 300 per week

Minimum Usage 100 per week

Reorder quantity - 1600 units

Reorder period - 2 to 4 Weeks

3) Features of financial management

4) Objectives of budgetary control