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आभास - 046

406 - SPECIALIZATION - VII 446 A
Financial Management
(Case Studies in Financial Management)

P. Pages : 3

Time : Three Hours

Max. Marks : 60

Instructions to Candidates :

1. Do not write anything on question paper except Seat No.
2. Answersheet should be written with blue ink only. Graph or diagram should be drawn with the same pen being used for writing paper or black HB pencil.
3. Students should note, no supplement will be provided.
4. Solve **any three** cases. All cases carry equal marks.
5. Use of simple calculator is allowed.

CASE - I

MNP Ltd. produces a chocolate bar. Each bar sells for Rs. 20, variable costs are Rs. 12.50 and total fixed costs are Rs. 3,00,000. During the year 10,00,000 bars were sold. To improve the profitability the following alternatives are considered :

- 1) The Co. has decided to increase its selling price to Rs. 25. The sales volume drops from 10,00,000 to 8,00,000 bars. Was the decision to increase the price is good one ? Compute the sales volume that would be needed at the new price for the Co. to earn the same profit as that of last year.
- 2) The sales manager is confident that an advertising campaign could double sales volume. If the Co. CEO's goal is to increase this years profits by 50% over last years, what is the maximum amount that can be paid on advertisement ?

CASE - II

The following information is furnished by a Co.

Capital and Reserves	Rs. 28,00,000
Net working Capital	2,80,000
Current Ratio	2 · 4
Liquid Ratio	1 · 6
Inventory Turnover (based on cost of Goods sold)	8
Gross Profit on sale	20%
Credit allowed by suppliers	1·5 months

Reserves amount to 40% of share capital. All sales are on credit.
 Current Assets consists of stock, debtors and cash only.
 Prepare a balance sheet of the Co.
 (You can assume opening stock and closing stock are at same amount)

CASE - III

A Co. is currently considering modernisation of a machine originally costing Rs. 50,000 (current book value zero) However it is in good working condition and can be sold for Rs. 25000. Two choices are available.

- 1) To rehabilitate the existing machine at a total cost of Rs. 1,80,000
- 2) To replace the existing machine with a new machine costing Rs. 2,10,000 requiring Rs. 30,000 to install.

The projected after tax profits under the alternatives are :

Year	Existing Machine	Rehabilitated Machine	New Machine
1	2,00,000	2,20,000	2,40,000
2	2,50,000	2,90,000	3,10,000
3	3,10,000	3,50,000	3,50,000
4	3,60,000	4,00,000	4,10,000
5	4,10,000	4,50,000	4,30,000
6	5,00,000	5,40,000	5,10,000

The Co. uses straight line method of depreciation cost of capital is 12%.
 Advise the Co. About the replacement of the machine.

P.V. of Re. 1 @ 12% discounting factor for six years are 0.893, 0.797, 0.712, 0.636, 0.567 and 0.507 respectively.

CASE - IV

Sagar Ltd. currently makes all sales on credit and offers no cash discount. It is considering 2% cash discount for payment within 10 days. The firms current average collection period is 60 days, sales are 2,00,000 units, selling price Rs. 30 per unit, Variable cost Rs. 20 per unit and average cost Rs. 25 per unit.

The change in credit terms will result in increase in sales to 2,25,000 units and the average collection period will fall to 45 days. Due to increased sales increased working capital required will be Rs. 1,00,000 (which does not include Debtors)

Assuming that 50% of the total sales will be on cash discount and 20% is the required return on investment should the proposed discount be offered.

CASE - V

A Co. is operating at 60% capacity, producing 24000 units per annum.
The cost structure is

	(Rs. P.U.)
Raw Material	5.00
Wages	3.00
Variable overheads	2.00
Fixed overheads	1.00
Profit	2.00

Selling Price	13.00

In the current year, current Assets and liabilities position is as under

	Rs.
Raw Materials - 4000 units	20,000
Work in Progress 1000 units	8,000
Finished goods 3000 units	33,000
Sundry Drs.	78,000
Creditors for goods	30,000
Outstanding wages	3,000
Outstanding expenses	6,000

In the next year, the unit is expected to operate at 90% capacity. Calculate the working capital requirement for the next year if period of credit allowed to customers, credit allowed by suppliers. time lag in payment of wages and expenses remain same as before.

WIP may be assumed 100% in respect of materials and 50% in respect of wages & overheads.
