CA INTERMEDIATE

SUBJECT- F.M.

Test Code – CIM 8707

(Date :)

(Marks - 50)

TOPICS : Estimation of Working Capital, Receivable Management, & Ratio

NOTES: (1) WORKING NOTES SHOULD FORM PART OF ANSWERS.

(2) NEW QUESTION SHOULD BE ON NEW PAGE

QUESTION NO.1 **(5*2 = 10 MARKS)**

A. PQR Ltd having an Annual Sales of Rs. 30 Lakhs, is re-considering its present collection policy. At present, the Average Collection Period is 50 days and the Bad Debts Losses are 5% of Sales, The Company is incurring an expenditure of Rs. 30,000 on account of collection of receivables.

The alternative policies are given below. **Evaluate them based on incremental approach and state which is more beneficial.**

Particulars	Alternative 1	Alternative II
Average Collection Period	40 days	30 days
Bad Debt Losses	4% of Sales	3% of Sales
Collection Expenses	Rs. 60,000	Rs. 95,000

B. The financial statements of a Company contain the following information for the year ending 31st March –

Particulars	Rs.
Cash	1,60,000
Sundry Debtors	4,00,000
Short-Term Investments	3,20,000
Stock	21,60,000
Prepaid Expenses	10,000
Total Current Assets	30,50,000
Current Liabilities	10,00,000
10% Debentures	16,00,000
Equity Share Capital	20,00,000
Retaining Earnings	8,00,000

Particulars	Rs.
Sales (20% Cash Sales)	40,00,000
Less : Cost of Goods Sold	28,00,000
Profit before interest and tax	12,00,000
Less : Interest	1,60,000
Profit Before Tax	10,40,000
Less : Tax at 30%	3,12,000
Profit After Tax	7,28,000

Calculate - (a) Quick Ratio, (b) Debt - Equity Ratio, (c) ROCE, and (d) Average Collection Period (assuming 360 day year).

QUESTION NO.2 **(5*2 = 10 MARKS)**

A. The following information is available for Excel Ltd.

Amount (Rs.)

Average stock of raw materials and stores	2,00,000
Average work-in-progress inventory	3,00,000
Average finished goods inventory	1,80,000
Average accounts receivable	3,00,000
Average accounts payable	1,80,000
Average raw materials and stores purchased on credit and consumed per day	10,000
Average work-in-progress value of raw materials committed per day	12,500
Average cost of goods sold per day	18,000
Average sales per day	20,000

Calculate the duration of operating cycle.

B. Sug Ltd. is a regular eash customer of Quest Ltd. The former has offered to buy goods of Rs.20,00,000 in one year and is expected to make payments as per following schedule :

By the end of 20 days	15% of the Bill
By the end of 45 days	30% of the Bill
By the end of 90 days	25% of the Bill
By the end of 100 days	28% of the Bill
Non Recovery (Discount)	2% of the Bill

Purchases of Rs. 20,00,000 would be scattered over the year and to be made in equal quantities on the first day of each quarter. The selling price and the profit per unit are Rs. 200 and Rs. 30 per unit. Quest Ltd. expects that if the offer is accepted, additional cost of Rs. 35,000 p.a. would be required. The opportunity cost of funds for Quest Ltd. may be taken as 25%; **Should the offer be accepted or not ?**

QUESTION NO.3 **(10 MARKS)**

Following figures are available in the books Tirupati Ltd.

Fixed assets turnover ratio	8 times (based of COGS)
Capital turnover ratio	2 times (based of COGS)
Inventory Turnover	8 times
Receivable turnover	4 times

Payable turnover	6 times
G P Ratio	25%

Gross profit during the year amounts to Rs. 8,00,000. There is no long-term loan or overdraft. Reserve and surplus amount to Rs.2,00,000. Ending inventory of the year is Rs.20,000 above the beginning inventory.

Required:

CALCULATE various assets and liabilities and PREPARE a Balance sheet of Tirupati Ltd.

QUESTION NO.4 **(10 MARKS)**

Black Limited has furnished the following cost sheet:

	Rs. Per Unit
Raw Material	98.00
Direct Labour	53.00
Factory Overhead (Includes depreciation ofRs.15 per unit at budgeted level of activity)	88.00
Total Cost	239.00
Profit	43.00
Selling Price	282.00

Additional Information:

(i)	Average raw material in stock	3 weeks
(ii)	Average work-in-progress (% of completion with respect to Material- 75% Labour & Overhead - 70%)	2 weeks
(iii)	Finished goods in stock	4 weeks
(iv)	Credit allowed to receivables	2 ½ weeks
(v)	Credit allowed by suppliers	3 ½ weeks
(vi)	Time lag in payments of labour	2 weeks
(vii)	Time lag in payments of factory overheads	1 ½ weeks
(viii)	Company sells, 25% of the output against cash	
(ix)	Cash in hand and bank is desired to be maintained	Rs.2,25,000
(x)	Provision for contingencies is required @ 4% of working capital requirement including that provision.	

You may assume that production is carried on evenly throughout the year and labour and factory overheads accrue similarly.

<u>You are required to prepare a statement showing estimate of working capital</u> needed to finance a budgeted activity level of 1,04,000 units of production. Finished stock, receivables and overhead are taken at cash cost.

QUESTION NO.5 **(10 MARKS)**

A firm has a total sales of Rs. 200 lakhs of which 80% is on credit. It is offering credit terms of 2/40, net 120. Of the total, 50% of customers avail of discount and the balance pay in 120days. Past experience indicates that bad debt losses are around 1 % of credit sales. The firm spends about Rs. 2,40,000 per annum to administer its credit sales. These are avoidable as a factor is prepared to buy the firm's receivables. He will charge 2% commission. He will pay advance against receivables to the firm at an interest rate of 18% after withholding 10% as reserve.

(i) **<u>What is the effective cost of factoring?</u>** Consider year as 360 days.

(ii) If bank finance for working capital is available at 14% interest, should the firm avail of factoring service.