DELHI SCHOOL OF BUSINESS
By Vivekananda Institute of Professional Studies - TC

PGDM Program

TRIMESTER - IV (Batch: 2023-25)

END-TERM EXAMINATION, SEPTEMBER 2024

Course Name	Financial Management II	Course Code	FIN 2
Duration	Three Hours	Max. Marks	60

Instructions:

1. All questions are compulsory.
2. The use of calculators is permitted.
3. Present all necessary calculations and formulas clearly

Q.1 ABC Manufacturing has seen a recent surge in sales, but this has led to higher accounts receivable and inventory levels, straining its working capital. The management team is considering three strategies to improve cash flow:

1. Tightening credit terms for customers.
2. Increasing inventory levels to ensure product availability.
3. Renegotiating payment terms with suppliers to extend payables.

Evaluate the potential impact of each strategy on ABC Manufacturing's working capital discussing the associated risks and returns for each option, focusing on liquidity, operational efficiency, and the company's growth. **(15 Marks) CO 2**

Q.2 The following is the balance sheet of ABC Ltd. as of 31st March 2024:

Item	Amount (₹)
Share Capital	1,000,000
Debentures	600,000
Current Liabilities	250,000
Fixed Assets	1,200,000
Current Assets	500,000

Based on historical performance, the company has achieved a return of 12% on fixed assets and 6% on current assets. Evaluate the effects on liquidity and profitability if the firm adopts the following working capital policies:

a) A conservative working capital policy that increases its investment in current assets by 25%.

b) An aggressive working capital policy that reduces its investment in current assets by 15%.

(10 Marks) CO 1 & 2

Q.3 A Ltd. currently has annual sales of ₹800,000 and is considering implementing a more liberal credit policy to enhance sales. The current collection period is 30 days. The following estimates are provided for different credit policies:

Credit Policy	Increase in collection Period	Increase in sales (Rs.)	Default rate
I	15 days	25,000	0.5%
II	30 days	60,000	1%
III	40 days	70,000	2%

A Ltd. sells its product at ₹15 per unit, with an average cost per unit of ₹10 and a variable cost per unit of ₹7. The company requires a rate of return of 25% on its investment. Based on this information, which credit policy would you recommend and why? Assume there are 360 days in a year.

(5+5+5+5 = 20Marks) CO 4

Q.4 The Annual cash requirement of X ltd is Rs. 10 Lakhs. The company has marketable securities od lot size of Rs. 50,000, Rs. 1,00,000, Rs. 2,00,000, Rs. 2,50,000 and Rs. 5,00,000. Cost of conversion of marketable securities per lot is Rs. 1000. The company can earn 5% annual yield on its securities. You are required to prepare a table indicating which lot size should be sold by the company along with any other optimum lot size and why?

(15 Marks) CO 4