AJA Commerce Academy
CA - Intermediate
***Test Series* – FINANCIAL MANAGEMENT**

Time Allowed – 1.5 Hours | Maximum Marks – 50

Section A – Multiple Choice Questions (10 Marks)

Case Scenario: Working Capital at DEF Ltd. (6 Marks)

Scenario:
DEF Ltd., an FMCG company, faces challenges in managing its working capital effectively. It is dealing with delayed receivables, fluctuating inventory levels, and excessive reliance on short-term financing.

Questions:

1. Working capital is defined as:
   (a) Total assets – Total liabilities
   (b) Current assets – Current liabilities
   (c) Fixed assets – Current liabilities
   (d) Gross profit – Operating expenses
2. High levels of receivables are likely due to:
   (a) Liberal credit policies
   (b) Strict credit policies
   (c) High inventory turnover
   (d) Improved cash management
3. Which of the following ratios is most commonly used to assess liquidity?
   (a) Debt-Equity Ratio
   (b) Gross Profit Ratio
   (c) Current Ratio
   (d) Inventory Turnover Ratio
4. Which model determines the optimal cash balance?
   (a) Baumol Model
   (b) EOQ Model
   (c) CAPM
   (d) Altman's Model
5. The primary objective of receivables management is to:
   (a) Maximize sales revenue
   (b) Minimize credit period
   (c) Reduce bad debts and optimize cash flow
   (d) Ensure low inventory levels
6. A conservative approach to working capital management is characterized by:
   (a) High liquidity and low risk
   (b) Low liquidity and high risk

(c) High reliance on short-term funds
(d) Low reliance on permanent working capital

General MCQs (4 Marks)

7. Operating cycle is calculated as:
   (a) Inventory period + Receivables period – Payables period
   (b) Receivables period + Inventory period
   (c) Payables period – Receivables period
   (d) Inventory period – Receivables period
8. Factoring is a method of:
   (a) Financing receivables
   (b) Inventory valuation
   (c) Reducing current liabilities
   (d) Managing cash flow
9. Treasury management focuses on:
   (a) Handling financial matters such as cash flow and currency management
   (b) Managing inventory levels
   (c) Reducing production costs
   (d) Enhancing supply chain efficiency
10. A longer operating cycle implies:
   (a) Lower working capital requirements
   (b) Higher working capital requirements
   (c) Reduced credit period for customers
   (d) Higher production efficiency

Section B – Practical and Descriptive Questions (40 Marks)

Question 1: Operating Cycle and its Management (10 Marks)

Scenario:
XYZ Ltd. provides the following data:

- Raw material holding period: 50 days
- WIP conversion period: 25 days
- Finished goods storage period: 20 days
- Receivables collection period: 45 days
- Payables payment period: 30 days

(a) Calculate the operating cycle for XYZ Ltd. (4 Marks)
(b) Discuss two strategies the company can implement to reduce the operating cycle. (6 Marks)

Question 2: Cash Budget Preparation (10 Marks)

Scenario:
DEF Ltd. provides the following data for June and July 2024:

Particulars	June (`)	July (`)
Opening Cash Balance	25,000	?
Cash Receipts	1,20,000	1,30,000
Cash Payments	1,10,000	1,40,000

The company maintains a minimum cash balance of `20,000`. Any surplus or deficit is adjusted with short-term borrowings or investments.

(a) Prepare a cash budget for June and July 2024. (6 Marks)
(b) Explain how cash budgeting helps in working capital management. (4 Marks)

Question 3: Receivables Management (10 Marks)

Scenario:
PQR Ltd. sells `90,000` units annually at `₹50` per unit. The company's average collection period is 45 days, and its contribution per unit is `₹15`. The company is considering offering a discount to reduce the collection period to 30 days, expecting an increase of 10% in sales.

(a) Calculate the impact of the new policy on receivables and profitability. (6 Marks)
(b) Recommend whether PQR Ltd. should implement the new policy. (4 Marks)

Question 4: Working Capital Financing Policies (10 Marks)

Scenario:
ABC Ltd. is exploring financing options for its working capital needs. It currently follows an aggressive financing policy, relying heavily on short-term debt, which has increased its risk profile.

(a) Discuss the features, benefits, and risks of conservative, aggressive, and moderate working capital financing policies. (6 Marks)
(b) Recommend a suitable policy for ABC Ltd. and justify your choice. (4 Marks)
