

**IIT Delhi**  
**B Tech – MSL 302 – Managerial Accounting & Financial Management**  
**Minor Test 2 – October 9, 2015**

Max Marks: 20

Duration: 1 hour

1. A company had a quick ratio of 1.4, a current ratio of 3.0, an inventory turnover of 6 times, total current assets of Rs. 8,10,000, and cash and marketable securities of Rs. 1,20,000. Find annual sales and debtors collection period. Assume that the current assets of the company comprise only of cash and marketable securities, debtors, and inventory. All sales are on credit. [5 marks]
2. You have a choice of accepting either of two 5-year cash flow streams or single amounts. One cash flow stream is an ordinary annuity, and the other is a mixed stream. You may accept alternative A or B—either as a cash flow stream or as a single amount. Given the cash flow stream and single amounts associated with each (see the following table), and assuming a 9 per cent opportunity cost, which alternative (A or B) and in which form (cash flow stream or single amount) would you prefer?

End of year	Cash flow stream	
	Alternative A	Alternative B
1	Rs. 700	Rs. 1100
2	Rs. 700	Rs. 900
3	Rs. 700	Rs. 700
4	Rs. 700	Rs. 500
5	Rs. 700	Rs. 300
	Single amount	
At time zero	Rs. 2,825	Rs. 2,800

[5 marks]

3. Asian Industries Ltd specializes in the manufacture of small capacity motors. The variable component of the cost structure of a motor is as under: Material- Rs.50; Labor- Rs.80; Variable overhead - 75% of labor cost. Fixed overheads of the company amount to Rs.2.40 lakhs per annum. The sale price of the motor is Rs.230 each.
- Determine the number of motors that have to be manufactured and sold in a year in order to break-even.
  - How many motors over and above the break-even point have to be made and sold to make a profit of Rs.1 lakh per year?
  - If the sale price is reduced by Rs.15 each, how many motors have to be sold to break-even? [5 marks]
4. What is a cash conversion cycle? What should be a firm's goal regarding the cash conversion cycle? What are some actions a firm can take to shorten its cash conversion cycle? [5 marks]

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Debtors  $T R = \frac{\text{Net credit}}{\text{No.}}$   $\frac{12}{4}$