EXAM WRAPPERS

Objective of exam wrapper is twofold

1. To guide you for time management
2. To give you a taste of upcoming exam questions

A cheat sheet is provided at the end of this document to help you find accuracy level of your answers.

Important Notes:

- Along with PPTs of Lecture # 32, **a supplement is available on topic of Types of Mergers.** In the provided supplement, types of mergers (explained in recommended books) has been summarized.
- Along with PPTs of lectures # 39 & 40 as well as under link of Downloads, **supplementary videos (total 5 video clips and one pdf file) have been provided in which basic types of derivatives have been explained.**
- Along with PPTs of Lecture # 42, **a supplement is available in which Concept of Moneyness of an Option** has been summarized in context of call option and put option.
- Students are advised to consult the recommended books along with video lectures, updated PPTs and supplements provided along with PPTs in different lectures to prepare for final-term examination.

Please fill following before you start attempting wrapper questions.

How much time did you spend on these activities?	Time spent/week	Ideally required time
Watching video lectures and updated PPTs		3 hrs.
Reading supplements		15 min
Practicing concept especially numerical from textbook		2 hrs.
Reviewing your own notes		15 min
Solving self-assessments		10 min
Total		**5 hrs. 40 min**

EXAM QUESTION WRAPPER

Q1: A company is estimating cash inflows for the first of upcoming year for which following information is available:

- Forecasted sales are Rs 250,000/- each for November to January and Rs. 300,000 per month for February and March.
- 55% sales are on credit basis and 45% on cash. Debtors pay after two months of the sales date.
- An equipment to be used in production will be purchased in December for Rs. 110,000/-. And payment will be made in February.
- Company will dispose of a machinery in November for Rs. 250,000. 50% payment will be received in January and 50% will be received in February.

Required: What should the cash inflow for the first quarter of the year?

Q2: How cash cycle is different from operating cycle? Also analyze either increase in cash cycle is a good sign for a company or decrease is better.

CHEAT SHEET

Solution 1:

INFLOWS	November	December	January	February	March
	Rs.				
TOTAL SALES	250,000	250,000	250,000	300,000	300,000
SALES - CREDIT 55%			137,500	137,500	137,500
SALES - CASH 45%			112,500	135,000	135,000
SALES INFLOW			250,000	272,500	272,500
SALE OF ASSET			125,000	125,000	-
TOTAL INFLOWS			**375,000**	**397,500**	**272,500**

Solution 2: Answers may vary little. Marks will be awarded for correct concept. However, the most possible correct answer has been provided below:

- Operating cycle is the time consumed from receiving of raw materials, converting it into finished goods for sale and collecting the amount against credit sales from debtors. On the hand, cash cycle is the time period involved between cash payments and cash receipts.
    - In simple words, operating cycle don't consider the payments to creditors while cash cycle also considers the time period a company takes to make payments to its creditors.

- Usually shorter cash cycle is considered good for a company. Formula for calculating cash cycle is:
  Cash cycle = Operating cycle – Average payment period

  Shorter cash cycle depicts that company is efficiently managing its debtors means collecting cash from debtors quicker than making payments to creditors. In such situation, company is internally generating finances by efficiently managing its debtors to settle down its payments with its creditors.