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Roll no 31, Branch CSE, FM Assignment 2,

1)

(a) Contribution margin per unit
= sales price − variable cost per unit

Contribution per unit = 100 − 60
= 40

Total contribution = contribution per unit × unit ~~sales~~ sold.
= 40 × 20,000
= 80,0000

Operating income = Contribution margin − fixed costs
= 800000 − 200000
= 600000

(b) New variable cost / unit = 30
New fixed cost = 7,00,000

Sales revenue = 100 × 20000
= 2000000

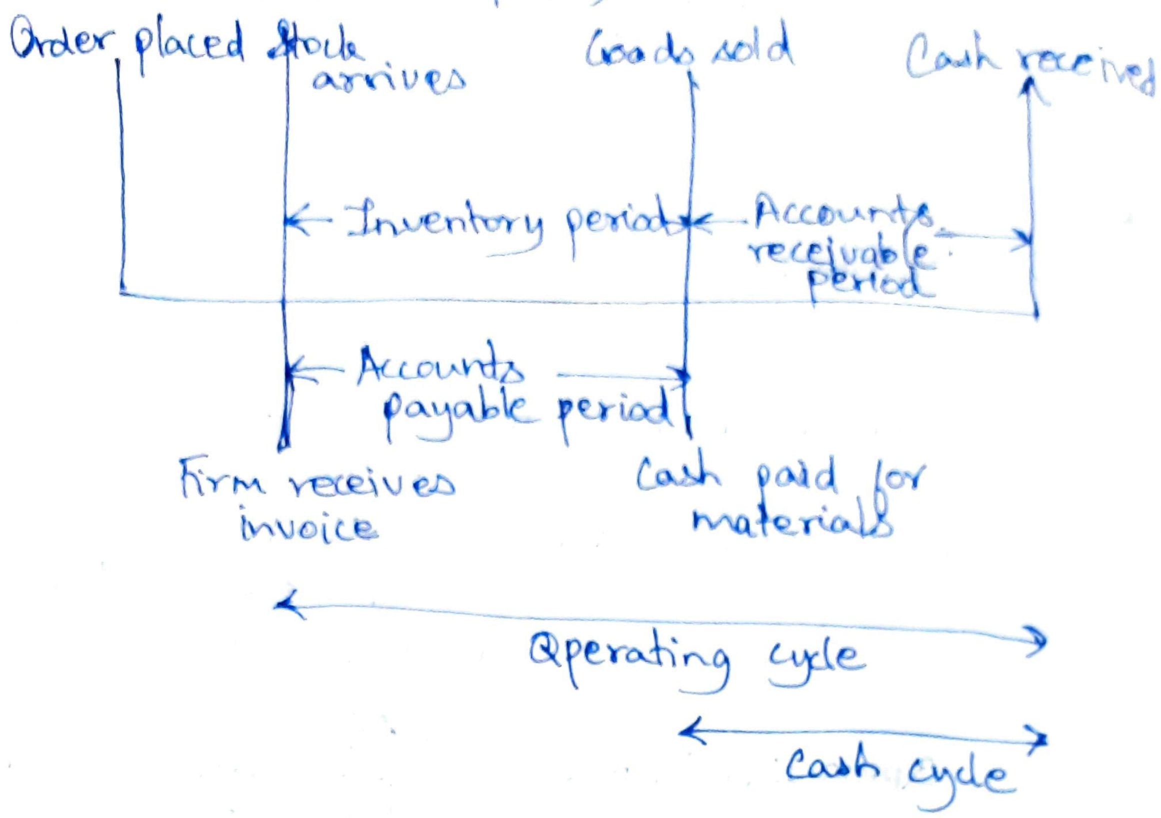
Variable cost = 30 × 20000
= 600000

Contribution margin = 2000000 − 600000
= 1400000

Operating income = 1400000 − 700000
= 700000

(c) The proposal should be accepted as it will lead to a higher contribution margin & a higher operating income

2) In XYZ company,



The time that elapses between the purchase of raw materials & the collection of cash for sales is referred to as the operating cycle, whereas the time length between the payment for raw material purchases and the collection of cash for sales is referred to as the cash cycle. The operating cycle is the sum of the inventory period and the accounts receivable period, whereas the cash cycle is equal to the operating cycle less the accounts payable period.

Working capital management is a significant facet of financial management. Its importance stems for two reasons:-

- Investment in current assets represents a substantial portion of total investment.
- Investment in current assets and the level of current liabilities have to be

geared quickly to change in sales. To be sure, fixed asset investment and long-term financing are also responsible to variation in sales. However, this relationship is not as immediate as it is in the case of working capital components.

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3) Calculation of Contribution

Revenue = 530000 $

Contribution = Revenue − Variable expenses

= Revenue − manufacturing cost − marketing and administrative cost.

= 530000 − 110000 − 180000

= 240000 $

Contribution = 240000 $

Contribution margin = $\frac{\text{Contribution}}{\text{Revenue}} \times 100$

= $\frac{240000}{530000} \times 100$

= 45.28%

Q2 (continued)

The importance of working capital management is reflected in the fact that financial managers spend a great deal of time in managing current assets & current liabilities. Arranging short-term financing, favourable credit terms, controlling the movement of cash, investing surplus funds, administering accounts, receivable, and monitoring the investment in inventories consume a great deal of time of financial managers.