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No. of Printed Pages: 04

SARDAR PATEL UNIVERSITY

B.B.A. [GEN] Examination, IV Semester

Monday, 18th April, 2016

Session: Morning **Time: 10.30 p.m. To 12.30 p.m.**

Subject Code: UM04CBBA02

Subject: Financial Management-II

Total Marks: 60

Q1[a] Explain the factors affecting the working capital decision of a firm. [08]

Q1[b] From the following information, you are required to estimate the working capital required: [07]

Particulars	Cost per unit Rs.
Raw Material	200
Direct Labour	100
Overheads(excluding depreciation)	250
Total cost	550

Estimated data for the forthcoming period are given below:

Raw material in stock	Average 6 weeks
Work-in-progress (assume 50% completion stage with 100% material consumption)	Average 2 weeks
Finished goods in stock	Average 4 weeks
Credit allowed by suppliers	Average 4 weeks
Credit allowed to Debtors	Average 6 weeks
Cash at bank	Rs.75,000
Selling price	Rs.800 per unit
Output	52,000 units per annum

Assume that production is sustained at an even pace during 52 weeks of the year. All sales are on credit basis.

OR

Q1[a] Write a note on the following sources of working capital finance: [07]

1. Trade credit
2. Bank finance

Q1[b] From the following information, extracted from the books of a company, Compute the operating cycle in days. [08]

Period covered	365 days
Average period of credit allowed by suppliers	16 days

Other data are as follows: (Rs. In thousands)	
Average debtors(outstanding)	480
Raw material consumption	4,400
Total production cost	10,000
Total cost of sales	10,500
Sales for the year	16,000
Value of average stock maintained:	
Raw material	320
Work-in-process	350
Finished goods	260

2[a] From the information and the assumption that the cash balance on hand on 1st January is Rs.1,72,500, prepare a cash budget for January to June. [10]

Month	Sales (Rs.)	Purchases (Rs.)	Salaries (Rs.)	Production overheads (Rs.)	Selling overheads (Rs.)
January	72,000	25,000	10,000	6,000	5,500
February	97,000	31,000	12,100	6,300	6,700
March	86,000	25,500	10,600	6,000	7,500
April	88,600	30,600	25,000	6,500	8,900
May	1,02,500	37,000	22,000	8,000	11,000
June	1,08,700	38,800	23,000	8,200	11,500

Assume that 50% of the total sales are cash sales. Assets are to be acquired in the months of February and April. Therefore, provisions should be made for the payment of Rs.8,000 and Rs.25,000 for the same. An anticipation has been made to the bank for the grant of loan of Rs.30,000 and it is hoped that the loan amount will be received in the month of May. It is anticipated that a dividend of Rs.35,000 will be paid in June. Debtors are allowed one month's credit. Creditors for materials purchased and overheads grant one month's credit. Sales commission at 3% on sales is paid to the salesman each month.

[b] What are the objectives of inventory management? [05]

OR

2[a] Sachin Ltd. Has 7 different items in its inventory. Suggest a break-down of the items into ABC classification from the data given below: [06]

Item	**Units**	**Unit cost (Rs.)**
1	25,000	12
2	25,000	4
3	70,000	4
4	30,000	15

5	10,000	110
6	20,000	50
7	20,000	3

[b] For the following information determine the EOQ for X Ltd. [04]
Annual consumption –3,000 units
Cost per unit – Rs.100
Ordering cost – Rs.30 per order
Carrying cost – 20% of the value of inventory

[c] Briefly discuss the strategies to manage the cash inflows. [05]

3[a] Arvind company currently makes all sales on credit and offers no cash discount. It is considering a 2% cash discount for payment within 10 days. The firm's current average collection period is 60 days, sales are 2,00,000 units, selling price is Rs.30 per unit, variable cost per unit is Rs.20 and average cost per unit is Rs.25 at the current sales volume. [08]
It is expected that the change in credit terms will result in increase in sales to 2,25,000 units and the average collection period will fall to 45 days. However, due to increased sales, increased working capital required will be Rs.1,00,000. Assuming that 50% of the total sales will be on cash discount and 20% is the required rate of return on investment, should the proposed discount be offered?

[b] Explain in brief the credit policy variables. [07]

OR

3[a] A company sells 40,000 units of its product per year @ Rs.35 per unit. The average cost per unit is Rs.31 and variable cost per unit is Rs.28. The average collection period is 60 days. Bad debts losses are 3% of sales and the collection charges amount to Rs.15,000. [10]
The company is considering the proposal to follow stricter collection policy which would bring down the losses on account of bad debts to 1% of sales and average collection period to 45 days. It would, however, reduce the sales volume by 1000 units and increase collection expenses to Rs.25,000. The company requires a rate of return of 20%. Would you recommend the adoption of the new credit policy?

[b] How is the credit evaluation of a customer done? [05]

Q4[a] Why financial leverage is called a double-edged weapon? [05]

Q4[b] The share capital of a company is Rs.10,00,000 with shares of face value of Rs.10. The company has debt capital of Rs.6,00,000 at 10% rate of interest. The sales of the firm are 3,00,000 units per annum at a selling price of Rs.5 per unit and the variable cost is Rs. 3 per unit. The fixed cost amounts to Rs.2,00,000. The company pays tax at 35%. If the sales increase by 10%, calculate: [10]

1. Percentage increase in EPS.
2. Operating leverage at the two levels.
3. Financial leverage at the two levels.

OR

Q4[a] Explain the concept of all three types of leverages. [05]

Q4[b] A company's yearly earnings before interest and taxes amount to Rs.15,000. It has 8% debentures of Rs.25,000, 10% preference shares of Rs.20,000 and 1000 equity shares of Rs.10,000. The tax rate is 50%. Assuming the EBIT being Rs.24,000 and Rs.6,000. What would be the earnings per share and the financial leverage in all the three situations? [10]

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