No. of Printed pages: 4

SARDAR PATEL UNIVERSITY BBA-SEMESTER – IV (General) (CBCS) Friday, 21 February 2014 10.30 am - 12.30 pm UM04CBBA02 - Financial Management II

Total Marks: 60

- Figures to the right side indicate full marks to the question concern.
- All working notes are part of your answers.
- Use of simple calculator is permitted.
- All question carry equal marks.
- Q:1 A) What is the meaning of Working Capital? Explain Factors affecting working capital 06 requirement in detail.
 - B) The Board of Directors of ABC Ltd. Request you to prepare a statement showing the 09 working capital requirement forecast for a level of activity of 1,56,000 Units of Production. The following information is available for your calculation:

Particular	Rs. Per Unit
Direct Materials	90
Direct Labor	40
Overheads	75
	205
Profit	60
Selling price per unit	265

- 1) Raw materials are in stock on an average one month.
- 2) Materials are in process on average one month.
- 3) Finished goods are in stock, on an average one month.
- 4) Credit allowed by suppliers one month.
- 5) Lag in the payment from debtors 2months.
- 6) Lag in the payment of overheads one month.

20% of the output is sold against cash. Cash in hand is expected to be Rs. 60,000. It is to be assumed that production is carried on evenly throughout the year. Wages and Overheads accrue similarly and a period of weeks is equivalent to a month. (Level of production 50% assumed)

OR

Q:1 A) Explain Sources of Working Capital.

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B) From the following data, compute the duration of the operating cycle for each of two 09 years and comment on increase / decrease.

Particular	Rs.	Rs.
Stock:	Year 1	Year 2
Raw material	20,000	27,000
Work in progress	14,000	18,000
Finished goods	21,000	24,000
Purchase	96,000	1,35,000
Cost of goods sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditor	16,000	18,000

Assume 360 days for computational purpose.

Q:2 A What is the meaning of cash Management? Explain Motives for holding cash.

B Prepare a cash budget for three months ending on 30th June 2012 from the 11 information given below:

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Month	SALES	Materials	Wages	Overheads
February	28,000	19,200	6,000	3,400
March	30,000	18,000	6,000	3,800
April	32,000	18,400	6,400	4,000
May	34,000	20,000	7,200	4,400
June	36,000	20,800	8,000	4,600
 Terms:		e receitados		

1. Credit Terms:

Sales /Debtors -10% sales are on cash, 50% of the credit sales are collected next month and the balance in the following month.

Creditors: - Materials - 2 Months

- Wages ¹/₄ Month
- Overheads ¹/₂ Month

2. Cash & Bank balance on 1st April 2012 is expected to be Rs. 12,000.

3. Plant & Machinery will be installed in February 2012 at a cost of Rs.1,92,000.

The monthly installment of Rs. 4,000 is payable from April onwards.

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4. Dividend @5% on Preferences shares Capital of Rs. 4,00,000 will be paid on 1st June.

- 5. Advances to be received for sale of Vehicles Rs. 18,000 in June.
- 6. Dividend from investment amounting Rs. 2,000 are expected to be received in June.
- 7. Income tax (advance) to be paid in June is Rs. 4,000.

OR

- Q:2 A) What is Inventory? Explain Need to hold inventories and Objectives of inventory 04 management.
 - B) Explain Inventory management techniques.
 - C) Just-in-time (JIT) Systems.
- Q:3 A) What is the meaning of Management of Receivables? Explain Optimum Credit Policy 05
 - B) Following is the balance sheet of Param Ltd. Calculate the amount of Maximum 10 Permissible bank finance by all three methods for working as per Tandon committee norms. You are required to assume the level of core current assets to be Rs. 60,00,000. You are required to calculate the current ratio as per recommended by committee assuming that bank has granted Maximum Permissible bank finance.

Balance sheet of Param Ltd.

As at 31st March 2012.

(Rs. In Lakhs)

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Liabilities	Rs.	Assets	Rs.	
Equity shares of Rs. 10/- each	400	Fixed Assets	1,000	
Retained earnings	400	Current Assets:		
11% Debentures	600	Raw Material	200	
Public Deposit	200	Work-in-process	300	
Trade Creditors	160	Finished Goods	150	
Bill Payable	200	Debtors	200	
		Cash & Bank	110	
	1,960		<u>1,960</u>	
	OR			

Q:3 A)

A Firm is considering whether collection policies should be stricter. A 10 present, it is selling, 72,000 units at Rs. 32 per unit. Bad debts expenses are 3%, Collection expenditure is Rs.20,000, the average collection period is 58 days, the variable and average per unit costs are Rs. 25 and Rs. 29 respectively.

With additional collection charges of Rs. 15,000, it is expected that the bad debts expenses will be only 1% and the average collection period will be decline to 40

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days. Due to rigorous collection procedure, the sales are expected to decline by 1,000 units. If the required rate of return is 20%, What advice would you give to the firm?

B) Cost-Benefit Analysis of Receivables

Q:4 A) ABC Company's Balance Sheet is as follows:

Liabilities	Amount	Assets	Amount	
	Rs.		Rs.	
Equity Capital (Rs. 10 per share)	1,20,000	Net Fixed Assets	3,00,000	
10% Long Term Debt	1,60,000	Current Assets	1,00,000	
Retained Earnings	40,000	a an an an an an an an Arthur An Anna an Anna an Anna Anna Anna Anna	a shekara A	
Current Liabilities	80,000			
	4,00,000	Y.,	4,00,000	

The Company's total turnover is 3. Fixed operating cost is Rs. 2, 00,000 and variable cost is 40% of sales. The income tax rate is 50%.

- Calculate for the company all three type of leverage.
- Determine the likely level of EBIT, if EPS is (a) Rs. 1 (b) Rs.3 (c) Rs. 0 (d) 4
- B) "Leverage is a two edge of sword." Explain it.

OR

Q:4 A) A co. produces and sales 5000 units at RS.100 per unit. The variable cost is RS.40per 08 unit. The fixed cost is RS.20000 Per annum. The tax rate is 50% The co. helps 30000. Equity shares each of RS.10 and 12% debentures RS.200000 calculate OL, FL, and EPS. And also determine DOL, DFL & DCL, If sales increased & decreased by 20%.
B) The following is the data regarding 3co's A, B, C 07

Particular	Α	B	C
Variable cost as % of sales	66.67	75	50
Interest	200	300	1000
OL	5	6	2
FL	3	4	2
Tax rate (%)	50%	50%	50%

From the above data prepare income statement.

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