

SEAT No. _____

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SARDAR PATEL UNIVERSITY

B.B.A.[HONOURS][ITM] - IVth SemesterTuesday, 17th April, 2018

Session: Morning Time: 10:00 A.M. TO 12:00 P.M.

Subject Code: UM04EBBI07

Subject: Financial Management & Services - II

Total Marks: 60

Q 1[a] What is working capital? Explain the factors affecting working capital decision of a firm. [15]

OR

Q1[a] From the following facts provided to you estimate the working capital required. Add 10% of your computed figures to allow for contingencies. [10]

Particular	Amount
Estimated cost per unit of production	
Raw material	40
Direct Labour	15
Overhead (exclusive of depreciation)	30
Total Cost	85
Additional Information:	
• Selling price	106 per unit
• Level of activity	1,00,000 unit p.a.
• Raw material in stock	Average 4 weeks
• Work in progress (assumed 50% completion stage)	Average 2 weeks
• Finished goods in stock	Average 4 weeks
• Credit allowed by supplier	Average 4 weeks
• Credit allowed to debtors	Average 8 weeks
• Lag in payment of wages	Average 1 ½ weeks
• Cash at bank	1,25,000

You may assume that production is carried on evenly throughout the (52 weeks) and wages and overheads accrue similarly. All sales are credit.

Q1[b] Briefly explain the types of working capital. [05]

Q2 From the following information you are required to prepare a cash budget for six months from January to June. Opening balance is Rs.1,50,000. [15]

Month	Sales	Purchases	Wages	Production expenses	Selling expenses	Admin. expenses
January	1,44,000	50,000	20,000	12,000	8,000	3,000
February	1,94,000	62,000	24,200	12,600	10,000	3,400
March	1,72,000	51,000	21,200	12,000	11,000	4,000
April	1,77,200	61,200	50,000	13,000	13,400	4,400
May	2,05,000	74,000	44,000	16,000	17,000	5,000
June	2,17,400	77,600	46,000	16,400	18,000	5,000

Following further information is available:

1. Out of sales 50% are cash sales and balance 50% is received in the month following month of sale.
2. Payment for purchase of assets is to be made of Rs.16,000 in February,

Rs.25,000 in March and Rs.50,000 in April.

3. Proceeds from sale of scrap are to be received in May, amounting to Rs.6000.
4. Dividend of Rs.90,000 is to be paid in June.
5. Sales commission is to be paid at 3% of total sales in same month in which sales are made.
6. Suppliers for materials provide one month credit.
7. Wages are paid in the same month.
8. Creditors of production, selling and administrative expenses are given one month's credit period.

OR

Q 2[a] Briefly explain credit evaluation. [07]

Q 2[b] The following details are available in respect of a firm. Determine Economic Order Quantity. [04]

Annual requirement of inventory 40,000 units

Cost of placing order is Rs. 480 per order.

Cost per unit (other than carrying and ordering cost) Rs. 16

Carrying cost are likely to be 15% per year

Q 2[c] Write a note on ABC analysis. [04]

Q3 Define the term mutual fund and explain all the types of mutual funds in detail. [15]

OR

Q3[a] Explain the functions of merchant banking. [10]

Q3[b] Differentiate between factoring and forfaiting. [05]

Q4 Explain the concept of capital structure and discuss the factors affecting the pattern of capital structure. [15]

OR

Q4[a] A company with net operating earnings of Rs.3,00,000 is attempting to evaluate a number of possible capital structures given below. Which of the capital structures will you recommend and why? (07)

Capital structure	Debt (Rs.)	Cost of debt (%)	Cost of equity (%)
1	3,00,000	10	12
2	4,00,000	10	12.5
3	5,00,000	11	13.5
4	6,00,000	12	15
5	7,00,000	14	18

Q4[b] Calculate the operating, financial and combined leverage for the following firms: [08]

Particulars	A	B
Output (units)	60,000	15,000
Fixed costs	Rs.70,000	Rs.1,40,000
Variable cost per unit	33.33%	30%
10% Borrowed capital	Rs.4,00,000	Rs.8,00,000
Selling price per unit	Rs.6	Rs.50
Tax rate	40%	40%

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