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[A-8]

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SARDAR PATEL UNIVERSITY
BBA (ITM) SEM: VI EXAMINATION
2016
Friday, 1st April
10:30 A.M. to 12.30 P.M.
UM06EBBI03
PRACTICES OF FINANCIAL MANAGEMENT

Total Marks: 60

Note: Figures to the right indicate marks of each question.
All working notes are part of the answer.

Q:1[A] Explain various factors affecting working capital requirements. [08]

[B] Calculate the Operating cycle period from the following figures of Amba Ltd: [07]

	Bal. as on 1st April 2005 (Rs.)	Bal. as on 31st March 2006 (Rs.)
Stock of:		
Raw materials	21,750	26,250
Work in progress	18,500	20,000
Finished goods	21,000	27,000
Sundry debtors	25,000	35,000
Creditors	17,350	20,000
Wages & Mfg expenses	1,12,500	
Administration expenses	10,000	
Selling & distribution expenses	5,000	
Purchase of material (all credit)	1,24,500	
Total sales(all credit)	3,00,000	

Assume 360 days in a year.

OR

Q:1[A] Calculate working capital requirement from the following: [09]

Production of the year	69000 units
Selling price per unit	Rs.50
Raw material	50 % of selling price
Wages	10 % of selling price
Manufacturing overheads	16 % of selling price
Selling overheads	4 % of selling price
Finished goods in stores	3 months
Raw material in stores	2 months
Production process (Cost of conversion 50%)	1 month
Credit allowed by creditors	2 months
Credit given to debtors	3 months

There is a regular production and sales. Wages and overheads occur similarly. Wages are paid in the next month. Materials are issued in the beginning of production cycle.

[B] "Trade credit is a spontaneous source of finance" – Explain. [06]

Q:2[A] From the following particulars make out a cash budget for the three months from May to July, 2015. [10]

(1) Cash & bank balance on 1-5-2015 Rs.50,000.

(2)

Months	Sales	Closing Stock	Overhead Exps.
March	80,000	10,000	12,000
April	1,00,000	15,000	15,000
May	1,20,000	25,000	20,000
June	1,60,000	30,000	18,000
July	1,40,000	27,500	20,000
August	1,50,000	25,000	15,000

(3) Goods are sold at profit of 25% on sales price.

(4) Purchases are made for cash.

(5) Assume 40% of total sales as cash sales.

(6) 50% of credit sales collected in the month after sales and remaining 50% in the second month after sales.

(7) Overhead expenses are paid in the subsequent month.

(8) An old machine is to be sold for Rs.30000 in June 2015.

(9) A new machine is to be bought for Rs.50000 in June 2015, the payment of which is made 80% against delivery and the remaining amount in the subsequent month.

(10) Income tax paid for Rs.10000 in June 2015.

[B] Explain 5'Cs of credit evaluation of customers. [05]

OR

Q:2[A] Following details are available for Khushi Ltd. [09]

Annual sales	24,00,000
Selling price	Rs.10
Variable cost	70 % of selling price
Total cost	Rs.9 per unit
Required rate of return	20%
Annual collection expenses	Rs.50,000
Percentage of default	3%
Present credit period	2 months

The company has decided to make its credit policy stringent and following program are offered:

Particulars	Prog. A	Prog. B
Average credit period	1.5 month	1 month
Percentage of default	2%	1%
Collection Expenses	75,000	1,50,000
Decrease in sales	10%	20%

Determine which collection program should be adopted?

[B] Write brief note on: [06]

1. Concentration Banking
2. Lock Box System

Q:3[A] Two components M and N are used as follows: [08]

Normal usage	600 units per week each
Maximum usage	900 units per week each
Minimum usage	300 units per week each
Re-order Quantity	M = 4,800 units
	N = 7,200 units
Re-order Period	M = 4 to 6 weeks
	N = 2 to 4 weeks

Calculate for each component:

1) Re order level 2) Minimum level
3) Maximum level 4) Average Stock level

[B] "Too much inventory is harmful as well as too less inventory is dangerous for a firm" Explain [07]

OR

Q:3[A] Discuss various inventory management techniques. [09]

[B] Mahakali Enterprises requires 90000 units of a certain item annually. The cost per unit is Rs. 3, the cost per purchase order Rs.300 and the inventory carrying cost Rs.6 per unit per year. [06]

1. What is economic order quantity?
2. What should the firm do if the supplier offers discount as below:

Order Quantity	Discount
4500 – 5999	2 %
6000 and above	3%

Q:4[A] Following details are available about Durga Ltd. [10]

Particulars	Amount
Equity Share Capital (Rs.10 each)	5,00,000
11% preference share capital (Rs.100 each)	1,00,000
Reserves and surplus	9,00,000
15% Debentures (each of Rs.100 each)	10,00,000

On equity shares, the next years expected rate of dividend is 20%.The growth rate of the earnings of the company is 10%.The average current market price of equity share is Rs.25.Assume that the cost of retained earnings is 3% less than cost of equity share capital. The current market price of preference share and debenture are Rs.60 and Rs.69 respectively. The tax rate applicable to company is 60%.

Calculate WACC using:

1) Book value weight
2) Market value weight

[B] Explain: [05]

1) Specific Cost and Composite Cost
2) Historical Cost and Future Cost

OR

Q:4[A] Define cost of capital. Explain its significance in financial decision making. [09]

[B] Compute cost of capital in following cases: [06]

1) Ansh Ltd. issued ten years 8% debentures of Rs.1000 each at 4% discount. According to terms of issue, these debentures are to be redeemed after ten years at 5% premium. The cost of issue is 2%.Calculate before tax cost of issue.

2) Vansh requires additional finance for which it has decided to issue, 1000, 9% preference share of Rs. 500 at par redeemable after 8 years. The cost of issue is estimated to be as follows:

   a) Underwriting Commission 1.5 %
   b) Brokerage 0.5 %
   c) Printing & other expenses Rs. 10,000

   Calculate cost of preference share.

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