(10 & A-5) SEAT No.______ No. of Printed Pages : 3

SARDAR PATEL UNIVERSITY
TY BBA ITM SEMESTER VI
PRACTICES OF FINANCIAL MANAGEMENT (UM06EBBI03)
1st APRIL 2017 SATURDAY
TIME: 10 A.M. T0 12 P.M

Total Marks 60
No. of pages : 03

Q:1 (a) Define the term working capital management and discuss factors affecting the requirement of working capital. **(08)**

Q:1 (b) From the following information extracted from the books of Ganesh Manufacturing company, compute the operating cycle period. **(07)**

Period Cover : 365 days

Average period allowed by suppliers : 16 days

	Rs.
Average total of debtors outstanding	48,000
Raw material consumption	4,40,000
Total production cost	10,00,000
Total cost of sales	10,50,000
Sales for the year	16,00,000

Value of Average stock maintained:

Raw material	32,000
Work in process	35,000
Finished goods	26,000

OR

Q:1 (a) Write a note on sources of working capital **(06)**

Q:1 (b) Amba Ltd. Provides following data, you are require to calculate working capital requirement. **(09)**

Particulars	**Rs.**
Cost of production (Including depreciation Rs. 1,00,000)	10,00,000
Raw material purchases	8,00,000
Monthly expenses	25,000
Anticipated opening stock of Raw material	80,000
Anticipated closing stock of Raw material	1,00,000

Inventory Norms:

Raw material	2 Month
Work in process	½ Month
Finished goods	1 Month

Additional Information:

1. The firm enjoys a credit of one and half month (1.5 months) on its purchases
2. The firm allow 1 month credit on sales to the debtors
3. The company has received an advance of Rs. 35,000 on sales order
4. Provision is to be made for contingencies Rs. 45,000

You may assume that production is carried on evenly throughout the year, and the minimum cash balance desired to be maintained is Rs. 1,20,000

Q:2 (a) Define the meaning of cash management and discuss the term concentration banking and lock box system. **(07)**

Q:2 (b) The details of A Ltd. Are as follows: **(08)**

(P.T.O.)

Sales	:20000 units
Selling price per unit	:Rs. 15
Variable cost per unit	: Rs.10
Average cost per unit	: Rs.12
Total fixed cost	: Rs.100000
Average collection period	:40 days

The company is contemplating to allow 3% cash discount for payment prior to the 15th day after a credit purchase by a customer. It is expected that due to this policy the sales would increase by 20%. Assume that bad debts will not be affected. The collection period will decline to 20 days. The return on investments expected by company is 16%. According to an estimate 50% of the total sales would be on discount. Should the proposed plan be implemented? Assume 360 days in year.

OR

Q:2 (a) Give the meaning of receivable and explain credit policy variables. **(07)**

Q:2 (b) Prepare Cash Budget for three months ending 31st December 2015 from the following information of Krishna Ltd. **(08)**

Cash Balance on 1st October 2015 Rs. 1,20,000

Year and Month 2015	Total Sales Rs.	Total Purchase Rs.	Wages Rs.	Overheads Rs.
August	3,00,000	1,40,000	40,000	80,000
September	4,00,000	2,00,000	50,000	1,10,000
October	4,50,000	1,60,000	60,000	1,20,000
November	5,00,000	2,40,000	70,000	1,30,000
December	6,00,000	3,00,000	80,000	1,50,000

Additional Information:

1. Assume the proportion of cash sales and credit sales as 1:4
2. Assume 20% of total purchase is to be cash purchase
3. Assume 2% of credit sales to be sales return every month
4. 50% of net credit sales are realize in the month following the sales and remaining 50% in second month following the sales
5. Plant costing Rs. 1, 00,000 is due for delivery in October 2015 payable 10% on delivery and balance after three months.
6. Sales commission 5% on total net sales is to be paid in the next month after actual sales
7. The period of credit allowed by suppliers is one month
8. Overheads include Rs. 5000 depreciation per month on fixed assets.
9. The time lag in payment of wages and overheads is one month

Q:3 (a) What do you mean by the term inventory? State its types. **(06)**

Q:3 (b) From the following information of Pavan Ltd find out: **(09)**

1) EOQ 2) Ordering Level 3) Maximum level 4) Minimum level 5) Danger level 6) Safety stock level 7) Average stock level

Annual consumption	12,000 units
Cost per unit	Rs. 1
Cost per order	Rs. 12
Inventory carrying cost	20% p.a
Delivery time period	30 to 10 days
Daily consumption	45 to 15 units

Maximum time for emergency purchase 5 days

OR

Q:3 (a) Write a note on ABC Analysis (07)

Q:3 (b) Mahakali Ltd uses different types of materials A,B & C in respect of which following information is available find out: (08)

1) Minimum level of material A
2) Maximum level of material B
3) Safety stock level of material
4) Average stock level of material D

Particulars	A	B	C	D
Delivery time (Week)	3 to 4	4 to 5	6 to 7	7 to 8
Average weekly consumption (units)	?	40	70	250
Maximum weekly consumption (units)	55	45	?	?
Minimum weekly consumption (units)	45	?	40	200
Ordering quantity	___	50	___	100

Q:4 (a) Define cost of capital and state its significance (07)

Q:4 (b) I) Shrinath Ltd. requires additional finance for which it has decided tissue 1,000, 9% debentures of Rs. 500 at par redeemable after 8 years. The cost of issue is estimated to be as follows: (08)

(i) Underwriting commission 1.5% (ii) Brokerage 0.5% (iii) Printing and other expanses Rs. 10,000.

Calculate the after cost of debentures assuming that the corporate tax rate is 30%.

2) Yamuna Ltd issues 50,000 preference shares of Rs. 100 each redeemable after 10 years at a premium of 5%. The cost of issues is Rs. 2 per share. Calculate the cost of preference share capital. Assume 30% corporate tax rate.

OR

Q:4 (a) **Explain following terms:** (06)

1. Explicit Cost
2. Implicit Cost
3. Historical Cost

Q:4 (b) The following is the capital structure of Radhe Ltd. (09)

Sources of funds	Amount	After tax cost of capital
Equity share capital (1,00,000 shares of Rs. 10 each)	10,00,000	11%
Preference share capital (25,000 shares of Rs. 10 each)	2,50,000	8%
Retained Earnings	5,00,000	11%
9% Debentures	7,00,000	4.5%

Presently the debentures being traded at 94%, preference shares at par and equity shares at 13.50 per share.

Find out the weighted average cost of capital based on market value weights.

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