(A-22) Seat No.: ________ No. of Pages: 03

SARDAR PATEL UNIVERSITY
THIRD YEAR BBA (ITM) (VI SEM)(2010 BATCH) EXAMINATION (NC)
2017
SATURDAY, 18th MARCH
2:00p.m To 4:00p.m
UM06EBBI03: PRACTICES OF FINANCIAL MANAGEMENT

Marks: 60

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

Particulars		Amount (Rs.)
Estimated cost per unit of production:		
Raw material		40
Direct labour		15
Overheads (exclusive of depreciation)	30	
Total cost		75

Additional information:

Selling price	106 per unit,
Level of activity	1,00,000 units p.a.
Raw material in stock	average 4 weeks
Work-in-process(assume 50% completion stage)	average 2 weeks
Finished goods in stock	average 4 weeks
Credit allowed by suppliers	average 4 weeks
Credit allowed to debtors	average 8 weeks
Lag in payment of wages	average 1 & 1\2 weeks
Cash at bank is expected to be	1,25,000

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

Q1[b] Explain the concept of operating cycle. **[05]**

OR

Q1 What is working capital management? Explain its types and factors affecting the working capital decision. **[15]**

Q2 The following information is available: **[15]**

Month	Sales forecast	Raw materials
May	75,000	37,500
June	75,000	37,500
July	1,50,000	52,500
Aug	2,25,000	3,67,500
Sep	3,00,000	1,27,500

(P.T.O.)

Oct	1,50,000	97,500
Nov	1,50,000	67,500
Dec	1,37,500	37,500
Jan	75,000	---------

Collection Estimation:

1) Within a month of sales 5 %.
2) During the month following sales 80 %.
3) During the second month following sales 15 %.

Payment for raw material:
During the month, following the month in which purchases take place.
Misc Expenses:

1) General and administrative exp Rs 11,250 per month.
2) Monthly lease payment Rs 3,750.
3) Monthly depreciation charges Rs 15,000
4) Monthly Miscellaneous expenses Rs 1150.
5) Income tax Rs 26,250 each in Aug, Sep and Dec.
6) Payment for R & D in Oct Rs 5,000.

Operating balance of cash on 1st July Rs 55,000. Minimum cash balance of 37,500 throughout the cash budget period is required.
Prepare a Cash budget for 6 month i.e. July to Dec.

OR

Q2[a] A company is currently selling 1,00,000 units at Rs.50 each. At the current level of production, the cost per unit is Rs.45, variable cost per unit being Rs.40. The company is currently extending one month credit to its customers. It is thinking of extending credit period to two months in the expectation that sales will increase by 25%. If the required rate of return is 30%, is the new credit policy desirable? [08]

Q2[b] Explain the costs and benefits associated with receivable management. [07]

Q3[a] A firm has 7 different items in its inventory. The average number of each of these items held, along with their unit costs, is listed below. The firm wishes to introduce an ABC inventory system. Suggest a breakdown of the items into A, B and C classifications. [08]

Items	No. of units	Cost per unit
1	20,000	60.80
2	10,000	102.40
3	32,000	11.00
4	28,000	10.28
5	60,000	3.40
6	30,000	3.00
7	20,000	1.30

Q3[b] Write note on EOQ with appropriate examples. [07]

OR

Q3[a] The following data relates to a particular item in stock. [08]

Normal usage	110 units per day
Minimum usage	50 units per day
Maximum usage	140 units per day

	<table><tr><td>Lead time</td><td>25-30 days</td></tr><tr><td>EOQ</td><td>5000 units</td></tr></table> Using the above data, calculate the reorder level, minimum level, maximum level.	
Q3[b]	What are the various types of inventory and what are the motives of maintaining inventory in business?	[07]
Q4[a]	Explain the concept of cost of capital. Explain different types of costs.	[10]
Q4[b]	Assuming a corporate tax rate of 35 per cent, compute the after-tax cost of the capital in the following situation: (a) A ten year 14 per cent debenture of Rs.2,000, redeemable at par, with 5 per cent flotation costs.	[05]
	OR	
Q4	A co. wishes to determine the WACC for evaluating capital budgeting projects. You have been supplied with the following information :	[15]

Balance Sheet as on March 31

Liabilities	Amount [Rs]	Assets	Amount [Rs]
Current Liabilities	900000	Sundry Assets	3900000
Debentures	900000		
Pref. shares	450000		
Equity Shares	1200000		
Retained earnings	450000		
	3900000		**3900000**

Anticipated external financing information:

- 20 year 8% debenture of Rs. 2500 face value, redeemable at 5% premium, sold at par, 2% floatation costs. The corporate tax rate is 35%
- 10% preference shares, sale price Rs. 100 per share, 2% floatation costs;
- Equity shares: sale price Rs. 115 per share, floatation costs would be Rs. 5 per share;
  Expected equity dividend growth is 5% per year, the expected dividend at the end of the current financial year is Rs. 11 per share. Assume that the co. is satisfied with its present capital structure and intends to maintain it.

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—x—