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BBABMC 313/BBMBMC 313

**Credit Based V Semester B.B.A./B.B.M. Degree Examination, Nov./Dec. 2018
(2012 Scheme)**

**FINANCIAL MANAGEMENT – I (Elective)
Working Capital Management**

Time : 3 Hours

Max. Marks :120

- Instructions :** 1) A single book containing 40 pages will be issued. No additional sheets will be issued.
2) Answer **all** the questions.
3) Show working notes **wherever** necessary.

SECTION – A

(2 Marks Each)

(2×10=20)

1. Answer **any ten** questions :

- What is permanent working capital ?
- What are treasury bills ?
- What is meant by transaction cost ?
- Give the meaning of credit standard.
- What is creditors turnover ratio ?
- What do you mean by carrying cost ?
- What is VED Analysis ?
- What is Financial lease ?
- What are collection policies ?
- What is lead time ?
- Give the meaning of operating cycle.
- What is lethargy ?

SECTION – B

(8 Marks Each)

(8×5=40)

Answer **any five** questions :

- Explain any 8 determinants of working capital.
- Explain the motives for holding cash.
- What are the costs and benefits of extending credit ?

P.T.O.



5. From the following information compute the operating cycle in days and the amount of working capital required. Period covered 360 days.

	(₹)
Average debtors outstanding	— 1,20,000
Average trade creditors	— 90,000
Raw material consumption	— 11,00,000
Total production cost	— 25,00,000
Total cost of goods sold	— 30,50,000
Credit sales for the year	— 40,00,000
Purchases for the year	— 22,00,000
Value of average stock maintained :	
Raw materials	— 80,000
Work-in-progress	— 1,00,000
Finished goods	— 95,000

6. Sagar Ltd. provides you the following information :

Particulars	Present Policy	Proposed Policy
Credit sales	₹ 70,00,000	₹ 56,25,000
Fixed cost	₹ 5,00,000	₹ 5,00,000
Variable cost	75% of sales	75% of sales
Average collection period	30 days	90 days
Required return on investment	20%	20%
Bad debt	0.5%	1.5%

Evaluate and suggest the best policy.

Note : Assume 360 days.

7. Bright Ltd. uses a continuous billing system that results in an average daily receipt of ₹ 15,00,000. It is contemplating the institution of concentration banking. It is estimated that such a system would reduce the collection period by 2 days.

Concentration banking would cost ₹ 2,00,000 annually and 10% can be earned by the firm on its investments.

It is also found that lock box system would reduce the overall collection period by 4 days and would cost annually ₹ 4,50,000.

Between concentration banking and lock box system which is better ?

8. Following details are available in respect of Golden Ltd. Company.

1) Annual inventory requirement is 3000 units.

2) Cost of placing each order ₹ 50

3) Carrying cost per item for one year ₹ 5.

4) Alternative order sizes (units) 3000, 1500, 1000, 600, 500 and 200.

Determine Economic Order Quantity under trial and error approach.

SECTION – C
(20 Marks Each)

(20×3=60)

Answer any three questions :

9. A proforma cost sheet of a company provides the following data :

Elements of cost	Amount per unit (₹)
Raw materials	50
Direct labour	20
Overheads	30
Total cost per unit	100
Profit	20
Selling price	120

The following additional information are available

- Raw materials in stock, average two months.
- Materials in process, average half a month (Assume 100% completion stage in respect of materials and 50% completion in respect of labour and overheads).
- Finished goods in stock, average one month.
- Credit allowed to customers average two months.
- 50% of sales are on credit basis.
- Credit allowed by suppliers average 1½ months.
- Time lag in payment of wages, average half a month.
- Time lag in payment of overhead, average one month.
- Estimated production is 75,000 units.
- Desired minimum cash balance is ₹ 1,00,000
- Safety margin of 10% is to be assumed.

You are required to prepare statement showing estimation of working capital.

10. Prepare cash budget for 6 months from January to June from the information given below :

a) Estimated sales, salary, selling expenses and raw material purchases.

Months	Sales (₹)	Salaries (₹)	Selling Expenses (₹)	Raw material Purchases (₹)
December	2,20,000	30,000	7,000	1,65,000
January	1,20,000	24,000	7,000	90,000



February	1,00,000	24,000	1,000	75,000
March	1,50,000	24,000	10,000	1,12,500
April	2,40,000	30,000	4,000	1,80,000
May	2,00,000	27,000	7,000	1,50,000
June	2,00,000	27,000	7,000	1,20,000

- b) General expenses are ₹ 20,000 per month.
- c) Sales will be 20% cash and 80% credit.
- d) All credit sales are collected in the month following the sales.
- e) Creditors for raw material purchases extend one month credit.
- f) Time lag in payment of salary is one month.
- g) Interest on debenture payable on June ₹ 2,400.
- h) Sales commission of 10% on sales is to be paid in the same month.
- i) The company plans to purchase equipment for ₹ 40,000 in the month of June.
- j) The loan applied with the banker likely to be received in the month of June ₹ 50,000.
- k) Cash balance at the beginning of January is ₹ 60,000.
- l) The firm maintains minimum cash balance of ₹ 30,000.

11. a) Advise the company whether it should go for debt financing or lease financing

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- 1) Cost of asset to be financed ₹ 1,750 lakhs.
- 2) 10% loan repayable in 4 equal installments at the end of each year. Annual loan installment is ₹ 552 lakhs.
- 3) Method of depreciation is straight line method.
- 4) Tax rate is 30%.
- 5) Alternatively asset may be obtained under the lease on the following terms :
Annual lease rental of ₹ 600 lakhs payable at the end of each year for 4 years.

Note : i) The present value of annuity at the end of 4 year at 7% is 3.38

ii) Present value at 7% at the end of each year is as follows :

Year :	1	2	3	4
PV at 7%	0.93	0.87	0.82	0.76

b) Explain the types of lease agreements.

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12. Write short notes on the following :

- a) Sources of working capital finance.
- b) ABC Analysis
- c) Credit terms
- d) Marketable securities.