Reg. No. | | | | | | | | | |

BBABMC 313/BBMBMC 313

V Semester B.B.A./B.B.M. Degree Examination, October/November 2019

(Credit Based Semester Scheme)

(2012 Scheme)

FINANCIAL MANAGEMENT – I (Elective)

Working Capital Management

Time : 3 Hours] [Max. Marks : 120

Instructions :

1) A single book containing upto 40 pages will be issued. No additional sheets will be issued.

2) Answer all the questions.

3) Show working notes wherever necessary.

PART – A

(10 × 2 = 20)

1. Answer **any ten** from the following :

(a) What do you mean by working capital?

(b) What is letter of credit?

(c) What are commercial papers?

(d) What is lethargy?

(e) What are credit terms?

(f) Mention the kinds of inventories.

(g) What is FSN analysis?

(h) What is creditors turnover ratio?

(i) What is meant by default cost?

(j) What is short cost?

P.T.O.

(k) Give the meaning of operating lease.

(l) Give the meaning of operating cycle.

SECTION – B

Answer any **five** questions (**8** marks each) : **(5 × 8 = 40)**

2. Explain the motives for holding cash.

3. Explain the approaches to financing current assets.

4. Explain the costs and benefits associated with inventory.

5. From the following information extracted from the books of Bright Ltd., compute operating cycle in days and the amount of working capital required.

   Credit period allowed by creditors is 15 days.

	₹
Average total of debtors outstanding	24,000
Raw material consumption	4,20,000
Total production cost	5,00,000
Total cost of sales	5,25,000
Sales for the year	8,00,000
Value of average stock maintained:	
Raw material	16,000
Work in progress	17,500
Finished goods	18,000

   Assume 360 days.

6. Star Ltd., provides you the following information :

Particulars	Present Policy	Proposed Policy
Credit Sales	₹ 65,00,000	₹ 80,00,000
Variable Cost	70% of sales	70% of sales
Average Collection Period	40 days	80 days

Particulars	Present Policy	Proposed Policy
Bad Debt	1%	2%
Required return on investment	20%	20%
Fixed Cost	₹ 6,00,000	₹ 6,00,000

Evaluate and suggest the best policy.

Note : Assume 360 days.

7. Goodluck Ltd., uses a continuous billing system that results in an average daily receipt of ₹50 lakhs. It is contemplating the institution of concentration banking, instead of the current system of centralized billing and collection. It is estimated that such a system would reduce the collection period of accounts receivables by 2 days.

   Concentration banking would cost ₹2,00,000 annually and 10% can be earned by the firm on its investments. It is found that a lock-box system could reduce the overall collection time by 4 days and would cost annually ₹4,00,000.

   Between concentration banking and lock-box system which is better?

8. A firms' inventory planning period is one year. Annual inventory requirement is 3,200 units.

   Cost of placing order is ₹50 per order.

   Carrying cost per item for one year is ₹3.

   Alternate order sizes (units) 3200, 1600, 800, 400, 200, 100.

   Determine Economic order quantity under trial and error method.

SECTION – C

Answer **any three** questions (**20** marks each) : **(3 × 20 = 60)**

9. The Board of Directors of the Progressive Engineering Company Ltd., provide the following information

Elements of Cost	Amount/Unit (₹)
Raw Materials	80
Direct Labour	50
Overheads	70
Total Cost per Unit	200
Profit	50
Selling Price	250

Additional information:

(a) Raw materials are in stock on an average for one month.

(b) Materials in process on an average for half a month (Assume 100% completion in respect of materials and 50% in respect of labour and overheads).

(c) Finished goods are in stock on an average for 2 months.

(d) Credit allowed to customers is two months.

(e) All sales are on credit.

(f) Credit allowed by suppliers is one month.

(g) Time lag in payment of wages is half a month.

(h) Time lag in payment of overhead is one month.

(i) Desired minimum cash balance is ₹30,000.

(j) Estimated level of activity is 78,000 units of production for the year.

(k) Safety margin of 20% is to be added for contingency.

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)

Months	Sales (₹)	Materials purchased (₹)	Salary and Wages (₹)	Production Overheads (₹)	Office & Selling Overheads (₹)
December	80,000	27,000	11,000	6,100	5,800
January	72,000	25,000	10,000	6,000	5,500
February	97,000	31,000	12,100	6,300	6,700
March	86,000	25,500	10,600	6,000	7,500
April	88,600	30,600	25,000	6,500	8,900
May	1,02,500	37,000	22,000	8,000	11,000
June	1,08,700	38,800	23,000	8,200	11,500

(b) Assume that 50% of the total sales are on cash basis.

(c) Debtors are allowed one month credit.

(d) Creditors for material purchase grant one month credit.

(e) Production & selling overhead are paid in the following month.

(f) Sales commission of 3% on sales is to be paid in the same month.

(g) Assets are to be acquired in the month of February for ₹18,000 and in the month of April for ₹30,000.

(h) Bank loan of ₹30,000 is to be received in the month of May.

(i) It is anticipated that dividend of ₹35,000 will be paid in the month of June.

(j) Cash balance at the beginning of January is ₹50,000.

(k) A minimum cash balance of ₹1,00,000 is to be maintained.

11. (a) Advise the company whether it should go for debt financing or lease financing: **(12)**

(i) Cost of the asset to be financed ₹2,500 lakhs.

(ii) 10% loan repayable in 4 equal installments at the end of each year.

(iii) Annual loan installment is ₹789 lakhs.

(iv) Method of depreciation is straight line method.

(v) Tax rate is 30%.

Alternatively asset may be obtained under the lease on the following terms:

Annual lease rental of ₹800 lakhs payable at the end of each year for 4 years.

Note :

1. The present value of annuity at the end of 4 years at 7% is 3.38.
2. 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) Define leasing. Explain the advantages of leasing. **(8)**

12. Write short notes on the following:

(a) Determinants of working capital

(b) Credit policies in receivables management

(c) Techniques of inventory control

(d) Marketable securities
