

Reg. No.

--	--	--	--	--	--	--	--	--	--



**BBABMC 313/BBMBMC 313**

**Credit Based V Semester B.B.A./B.B.M. Degree Examination, April 2021  
(Semester Scheme) (2012 Scheme)  
FINANCIAL MANAGEMENT – I (Elective)  
Working Capital Management**

Time : 3 Hours

Max. Marks : 120

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

**SECTION – A**

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

**(10×2=20)**

- What is networking capital ?
- What is the lead time ?
- What is the collection cost ?
- What is operating cycle ?
- What is credit standard ?
- What is delinquency cost ?
- What is safety stock level ?
- What is deposit float ?
- What is concentration banking ?
- What are current liabilities ?
- What is leasing ?
- What is Account Receivables ?

**P.T.O.**



## SECTION – B

Answer **any five** questions. **8 marks each** :

(5×8=40)

2. Explain any four techniques of inventory control.
3. What are the crucial decision areas in receivable management ?
4. Explain the adequacy of working capital.
5. A firm's inventory planning period is one year. Inventory requirement for this period is 6000 units. Acquisition costs are Rs. 50 per order. The carrying costs are expected to be Re. 1 per unit.

Assuming the following order sizes 6,000 units, 3,000 units, 1,200 units, 300 units and 150 units. Calculate EOQ as per trial and error method.

6. Suggest ABC plan.

Item	Units	Cost (Rs.)
1	30,000	1.7
2	10,000	0.65
3	5,000	51.2
4	16,000	5.5
5	14,000	5.14
6	10,000	30.4
7	15,000	1.5



7. 'XY' Ltd. informs you that 40 days, 30 days, 50 days are needed for raw material conversion period. Work-in-progress conversion period and finished goods conversion period. Further 30 days are needed to realise the accounts receivable. The firms get credit on purchases from suppliers 60 days.

Calculate :

- 1) Gross and net operating cycle
- 2) Calculate number of operating cycles in a year.
- 3) If cost of sale Rs. 12,60,000.

Estimate the working capital requirements.

Note : Assume 360 days in a year.

8. Sagar Ltd. provides the following particulars :

	Present policy	Proposed policy
Credit Sales	Rs. 3,00,000	Rs. 3,45,000
Variable cost	60% of Sales	60% of Sales
Average collection period	45 days	75 days
Fixed cost	Rs. 60,000	Rs. 60,000
Bad debt	1%	3%
Return on Investment	15%	15%

Evaluate and suggest best policy.

Note : Assume 360 days in a year.



## SECTION – C

Answer **any three** questions. **20** marks **each** :

**(3×20=60)**

9. From the following details prepare an estimate of requirement of working capital.

Production 60,000 units p.a.

Selling price Rs. 10 per unit.

Raw materials 50% of selling price.

Direct wages 15% of selling price.

Manufacturing overheads 20% of selling price.

Selling and distribution expenses 5% of selling price.

Materials in hand 2 months requirement.

Production time one month.

Finished goods in store 3 months.

Credit allowed to customers 2½ months.

Credit allowed by suppliers 2 months.

Cash in hand Rs. 50,000.

Safety margin 20%.

Lag in payment of wages and manufacturing overhead one month and selling and distribution expenses ½ month. In the production all the materials charged in the initial stage and wages and overhead accrue evenly.



10. The following information are available. Prepare cash budget from April to September :

- 1) Cash sales 25% of the total sales.
- 2) 60% of credit sales are collected in following month of sales. Balance 30% and 10 % in the second and third month following :

**Sales (Rs.)**

Jan.	12,00,000
Feb.	14,00,000
March	16,00,000
April	6,00,000
May	8,00,000
June	8,00,000
July	12,00,000
Aug.	10,00,000
Sept.	8,00,000
Oct.	12,00,000

**Purchases (Rs.)**

April	6,40,000
May	6,40,000
June	9,60,000
July	8,00,000
Aug.	6,40,000
Sept.	9,60,000

- 3) Gross profit 20%.



## 4) Wages paid (Rs.)

April	1,20,000
May	1,60,000
June	2,00,000
July	2,00,000
Aug.	1,60,000
Sept.	1,40,000

5) Interest on debenture 6% for Rs. 20,00,000 is paid quarterly in June and September.

6) Excise duty due in July Rs. 2,00,000.

7) Plant and machinery purchased Rs. 1,20,000 for September.

8) The company has cash balance of Rs. 4,00,000 in 31<sup>st</sup> March.

9) Rent Rs. 8,000 per month.

11. a) Amar company is interested in acquiring the use of an asset costing Rs. 25,00,000.

It has two options :

- 1) to borrow the amount at 16% p.a. repayable in 4 equal annual installments. Annual loan installment is Rs. 9,00,000. OR
- 2) to take on lease the asset for a period of 4 years at the end lease rentals of Rs. 7,00,000.



The corporate tax is 50% and depreciation is allowed on straight line method. You are required to advise the company about lease or buy option.

Note :

- a) Present value of annuity at 8% for 4 years is 3.312.
- b) Present value factor at 8% for 4 years.

Year	1	2	3	4
PV factor at 8%	0.926	0.857	0.794	0.735

- b) Explain the advantages and disadvantages of leasing.

8

12. Write short notes on the following :

- a) Types of working capital
- b) Costs and benefits of extending credit
- c) Objectives of inventory management
- d) Motives of holding cash.