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**BBABMC 313/BBMBMC 313**

**Credit Based V Semester B.B.A./B.B.M. Degree  
Examination, April/May 2022  
(2012 Scheme)**

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

Time : 3 Hours

Max. Marks : 120

**Instructions :** 1) Answer *all* the questions.  
2) Show working notes *wherever* necessary.

**SECTION – A**

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

**(10×2=20)**

- What is working capital ?
- What are the different types of working capital ?
- What is matching approach of financing current assets ?
- What is transaction motive of holding cash ?
- What is cash budget ?
- What is meant by lock box system ?
- What is credit standard ?
- What is default cost ?
- What is EOQ ?
- What is lead time ?
- What is lease ?
- What are carrying cost ?

**SECTION – B**

Answer **any five** questions

**(5×8=40)**

- Write a note on operating cycle.
- Write a short note on Concentration Banking.
- Explain the cost and benefits of extending credit.

P.T.O.



5. A firm's inventory planning period is one year. Its inventory requirements for this period is 8,000 units. Assume that its ordering cost is Rs. 100 per order while carrying cost is expected to be Rs. 5 per unit per year. The firm can procure inventory in various lots as follows  
8000 units, 4000 units, 2000 units, 1000 units, 500 units, 250 units. Which of these order quantities is economic order quantity ?

6. From the following data pertaining to a company, compute operating cycles and estimate the size of working capital assuming 360 days in a year.

Average Stock	Rs.
Raw materials	20,000
Work-in-progress	14,000
Finished goods	21,000
Purchase of raw materials	96,000
Cost of Goods sold	1,40,000
Sales	1,60,000
Debtors	32,000
Creditors	16,000

7. A firm uses a continuous billing system that results in an average daily receipt Rs. 50 lakhs. It is contemplating the institution of concentration banking, instead of the current system of centralised billing and collection. It is estimated that such a system would reduce the collection period of accounts receivable by 2 days. Concentration banking cost Rs. 60,000 annually and 10% can be earned by the firm on investments. It is also found that a lock box system could reduce its overall collection time by 5 days and could cost annually Rs. 1,20,000.

- How much cash would be released with the concentration banking system ?
- How much cash would be freed by lock box system ?
- Between concentration banking and lock box system which is better.

8. Sunshine Ltd. provides the following particulars :

	Present	Proposed
Credit sales (Rs.)	2,50,000	1,50,000
Selling price per unit	Rs. 100	Rs. 100
Average collection period	80 days	40 days
Variable cost	70% of sales	70% of sales
Rate of return	15%	15%
Bad debt	3%	1%
Fixed cost (Rs.)	10,500	10,500

Suggest which policy is best ? Assume 360 days in a year.





SECTION – C

Answer any three questions. 20 marks each.

(3×20=60)

9. From the following data estimate the working capital requirements.

- 1) Expected level of production 1,20,000 units
- 2) Raw materials in stores 2 months
- 3) Processing period one month
- 4) Finished goods in stock 3 months
- 5) Credit allowed to the customers 3 months
- 6) Ratio of cost to selling price : Raw materials 60%, Wages 10%, Overhead 20%, selling price Rs. 10.
- 7) Expected margin on sale 10%.
- 8) Cash in hand Rs. 50,000.
- 9) Lag in payment of wages and manufacturing overhead one month.
- 10) Selling and distribution expenses  $\frac{1}{2}$  month.

In production all the required materials are charged in the initial stage and wages and overheads accrue evenly.

10. Prepare cash budget from April to September.

Sales	(Rs.)
January	1,00,000
February	1,20,000
March	1,25,000
April	90,000
May	95,000
June	1,10,000
July	1,05,000
August	1,05,000
September	1,20,000
October	1,30,000

**Other information :**

- 1) 80% of sales are on credit, which is received 50% after one month of sales. 30% in second month and balance in third month.
- 2) Purchases 75% of sales of each month.
- 3) Monthly rent Rs. 5,000.
- 4) Wages 10% of sales and there is a lag in payment of half a month.
- 5) Other expenses 5% of sales, lag in payment of  $\frac{1}{4}$  month.
- 6) Depreciation Rs. 24,000.
- 7) Opening cash balance Rs. 50,000 on 1<sup>st</sup> April.

All purchases are made two months in advance and creditors allowed one month credit.



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

- 1) Cost of the asset to be financed Rs. 2,500 lakhs.
- 2) 10% loan repayable in 4 equal installments at the end of each year.
- 3) Salvage value at the end of fourth year Rs. 100 lakhs.
- 4) Method of depreciation is straight line method.
- 5) Tax rate is 30%.

Alternatively asset may be obtained under lease on the following terms. Annual lease rental of Rs. 800 lakhs payable at the end of each year for four years.

**Note :**

- 1) The present value of annuity at the end of 4 years at 7% is 3.38.
- 2) The present value at 7% at the end of each year is as follows.

Year	P.V. at 7%
1	0.93
2	0.87
3	0.82
4	0.76

- 3) Present value of annuity at the end of 4 years at 10% is 3.17.

b) Explain the advantages of lease financing to the lessee.

12. Write short notes on the following.

- a) Determinants of working capital.
- b) Techniques of inventory control.