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BBABMC 335

**Choice Based Credit System V Semester B.B.A. Degree
Examination, February/March 2023
(2021 – 22 Batch Onwards)
FINANCIAL MANAGEMENT**

Specialisation Paper – 1 : Working Capital Management : Course – 1

Time : 3 Hours

Max. Marks : 120

Instruction : Provide working notes *wherever necessary*.

SECTION – A

(Six Marks each)

Answer **any four** questions.

(4×6=24)

1. What are the concepts of working capital ?
2. Explain any two marketable securities alternatives.
3. Explain the meaning and goal of receivables management.
4. What is inventory ? Explain the objectives of inventory management.
5. What is leasing ? Explain operating lease.
6. The firms annual requirements of inventory is 6000 units. Ordering cost is ₹ 60 per order. The carrying cost is ₹ 2 per unit per annum. Determine EOQ.
7. From the following data compute operating cycle. Raw material holding period is 25 days, WIP period is 15 days, finished goods holding period is 30 days, average collection period is 30 days and average payment period is 20 days.

SECTION – B

(Twelve Marks each)

Answer **any four** questions.

(4×12=48)

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

P.T.O.



	₹
Raw material consumption	8,50,000
Total production cost	19,50,000
Total cost of sales	23,25,000
Sales for the year	50,00,000
Purchase for the year	30,00,000
Average trade creditors	2,15,000
Average total debtors outstanding	2,80,000
Value of average stock maintained :	
Raw material	85,000
Work in progress	1,15,000
Finished goods	1,55,000

Assume 360 days in a year.

9. The firm uses continuous billing system that results in an average daily receipt of ₹ 20,00,000. It is contemplating the institution of concentration banking. It is estimated that such a system would reduce the collection period by 3 days. The concentration banking would cost ₹ 3,00,000 annually and 15% can be earned by the firm on its investments.
- Advise the firm whether it should introduce concentration banking system.
 - Will your answer be different, if it is estimated that lock box system can reduce the collection time by 4 days and its annual cost would be ₹ 4,50,000.

10. Star Light Ltd., is planning to revise its credit policy. The average collection period which is at present 30 days is expected to increase to 45 days. The bad debt also increases from 2% to 3% on sales. The total credit sales are expected to increase from the level of 35,000 units to 40,000 units. The present selling price per unit is ₹ 20 and variable cost per unit is ₹ 10. The present average cost per unit is ₹ 15. The firm expects return on investment of 20%. Should the firm revise its credit policy ?

Assume 360 days in a year.



11. Green Valley Ltd., has 10 different items in its inventory. The company wants to introduce ABC inventory system. Suggest ABC plan from the below data.

Item No.	Avg. No. of Units	Avg. Cost (₹)
X ₁	21000	0.50
X ₂	10000	5.50
X ₃	16000	2.70
X ₄	50000	3.50
X ₅	15000	0.20
X ₆	33000	5.50
X ₇	80000	0.04
X ₈	120000	0.05
X ₉	15000	0.35
X ₁₀	10000	2.00

12. Following details are available in respect of Golden Ltd., Company.

- i) Annual inventory requirement is 3000 units.
- ii) Cost of placing each order ₹ 50.
- iii) Carrying cost per item for one year ₹ 5.
- iv) Alternative order sizes (units) 3000, 1500, 1000, 600, 500 and 200.

Determine EOQ under trial and error approach.

13. Explain the principal motives for holding cash.

14. Explain the advantages of leasing from lessee's point of view.

SECTION – C

(24 Marks each)

Answer **any two** questions.

(2×24=48)

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

Elements of cost	Amount per unit (₹)
Raw material	50
Direct labour	20
Overheads	<u>30</u>
Total cost	100
Profits	<u>20</u>
Selling price	<u>120</u>



The following additional information are available.

- Raw materials in stock, average one month
- Average material in work-in-progress is for half a month (Assume full raw material and 50% of Direct labour and overhead)
- Credit allowed by suppliers is one month
- Finished goods in hold for one month
- Credit allowed to debtors is one month
- 25% of the sales are on cash sales
- Avg. time lag in payment of wages half a month
- Average time lag in payment of overheads is one month
- Cash balance expected to be ₹ 1,00,000
- Safety margin 10%.

You are required to prepare a statement of the working capital needed to finance a level of the activity of 54,000 units of output. Production is carried on evenly throughout the year and wages and overheads accrue similarly.

16. Prepare the cash budget for 6 months from July to December 2022 from the information given below.

- a) Estimated sales and expenses

Months	Sales (₹)	Purchases (₹)	Salaries (₹)	Selling expenses (₹)	Production overhead (₹)
June	3,50,000	2,30,000	43,000	3,000	6,000
July	4,20,000	1,75,000	42,000	4,000	6,300
Aug.	3,80,000	2,20,000	46,000	5,600	6,000
Sept.	3,70,000	1,80,000	44,000	4,300	6,500
Oct.	4,30,000	1,65,000	42,000	3,200	8,000
Nov.	3,00,000	2,50,000	41,000	2,700	8,200
Dec.	4,50,000	2,60,000	42,000	4,800	6,300

- Assume that 50% of the total sales are on cash basis.
- Debtors are allowed one month credit.
- Creditors for purchases are paid in the following month.
- Salaries and selling expenses are paid in same month.



- f) Lag in payment of production overhead is one month.
- g) Sales commission of 2% on sales is to be paid in the same month.
- h) General expenses are ₹ 3,000 per month.
- i) It is anticipated that dividend of ₹ 1,30,000 will be paid in the month of August.
- j) Income tax to be paid ₹ 50,000 each in September and December.
- k) The loan applied with the banker likely to be received in the month of October ₹ 1,00,000.
- l) Estimated purchase of machinery in the month of October ₹ 3,00,000.
- m) Minimum cash balance to be maintained is ₹ 1,50,000. The opening balance on 1st July is ₹ 30,000.

17. HNM Ltd. has an option of purchasing a machine or get it on lease.

The machine can be purchased for ₹ 40,00,000 subject to straight line method of depreciation. It is expected to have useful life of 4 years. The purchase can be financed by 16% loan repayable in 4 equal installments at the end of each year.

Alternatively machine can be taken on lease, on year end lease rental of ₹ 10,00,000 for 4 years. Assuming 50% tax rate, determine :

- a) Annual loan installment
- b) Annual depreciation
- c) Present value of cash flows under buying alternative
- d) Present value of cash flows under leasing alternatives
- e) Should the company lease it or buy the machine ?

Note : Present value annuity @ 8% for 4 years is 3.312 and @ 16% for 4 years is 2.798.

Present value factors @8% for 4 years.

1 st year	:	0.926
2 nd year	:	0.857
3 rd year	:	0.794
4 th year	:	0.735

18. Explain the factors determining the working capital.
