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

BBMBMC 313

Credit Based V Semester B.B.M. Degree Examination, Nov./Dec. 2015
(2012 Scheme)
FINANCIAL MANAGEMENT – I (Elective)
Working Capital Management

Time : 3 Hours Max. Marks : 120

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

SECTION – A
(2 marks **each**)

Answer **any ten** questions : **(2×10=20)**

1. a) What do you mean by temporary working capital ?
   b) What is Aggressive approach ?
   c) What is Economic order quantity ?
   d) What is default cost in receivables management ?
   e) What are credit standards ?
   f) What do you mean by safety stock ?
   g) What is domestic lease ?
   h) Write any two examples for cash outflows.
   i) Write the two elements of costs involved as per Baumol model.
   j) What do you mean by gross operating cycle ?
   k) Expand “$^{3}/_{20}$ net 45”.
   l) What is lead time ?

SECTION – B
(8 Marks **each**)

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

2. What are the sources of working capital finance ?
3. What are the objectives of management of cash flows ?
4. Explain the costs and benefits involved in maintaining receivables.

P.T.O.

5. 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 stocks : Raw materials		27,000
	Work in progress	18,000
	Finished goods	24,000
Purchase of Raw-materials		1,35,000
Cost of goods sold		1,80,000
Sales for the year		2,00,000
Average Debtors		50,000
Average Creditors		18,000

6. Ashoka Ltd. uses continuous billing system that results in an average daily receipt of Rs. 10 lakh. 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 Rs. 1,50,000 annually and 15% can be earned by the firm on its investments.
   i) Advise Ashoka Ltd. whether it should introduce concentration banking system.
   ii) 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 Rs. 2,00,000.

7. Suppose a firm is contemplating an increase in the credit period from 30 to 60 days. The average collection period is at present 45 days is expected to increase to 75 days. It is likely that the bad debt expenses will increase from the current level of 3 per cent to 5 per cent of sales. Total credit sales are expected to increase from the level of 30,000 units to 36,000 units.

   The present average cost per unit is Rs. 16, the variable cost is Rs. 12 and selling price is Rs. 20. Assume the firm expects a rate of return of 20%.

   Should the firm extend the credit period ?

8. A firms inventory planning period is one year. Its inventory requirements for this period is 1,600 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 :

   1,600 units, 800 units, 400 units, 200 units, 100 units, 50 units. Which of these order quantities is Economic Order Quantity ?

SECTION – C

(20 Marks each)

Answer **any three** questions. (20×3=60)

9. From the following details prepare an estimate of requirements 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 expenses	5% of selling price
Materials in hand	2 months requirements
Production time	1 month
Finished goods in store	3 months
Credit allowed to customers	$2\frac{1}{2}$ months
Cash in hand	Rs. 50,000
Safety margin	20%

Lag in payment of wages and manufacturing overheads is 1 month and of selling expenses is $\frac{1}{2}$ month. In production all the required materials are charged in the initial stage and wages and overheads accrue evenly.

10. Prepare monthly cash budget for 6 months beginning from April to September on the basis of the following information :

a) Estimated monthly sales are as follows :

	₹		₹
Feb.	1,20,000	July	1,00,000
March	1,40,000	August	80,000
April	80,000	Sept.	60,000
May	60,000	Oct.	1,00,000
June	80,000		

b) Wages and Salaries are estimated to be payable as follows :

	₹		₹
April	9,000	July	10,000
May	8,000	August	9,000
June	10,000	Sept.	9,000

c) Cash sales are 20% of sales and balance 80% are credit sales.

d) 75% of credit sales are collected in the month following the sales and remaining 25% of credit sales are collected in the second month following the sales.

e) Purchases amount to 80% of sales purchases are made one month in advance and paid in the month of purchase.

f) Debenture interest to be paid in April and July of Rs. 3,000 each.

g) Advance tax payment to be made in July Rs. 5,000.

h) The opening cash balance on April 1 is Rs. 20,000. Maintain minimum cash balance of Rs. 20,000 every month.

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 the lease on the following terms : Annual lease rental of Rs. 800 lakhs payable at the end of each year for four years.

Note :

i) The present value of annuity at the end of 4 years 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%	.93	.87	.82	.76

iii) Present value of annuity at the end of 4 years at 10% is 3.17. **12**

b) Explain the advantages of leasing to the lessee. **8**

12. Write short notes on **any three** of the following :

a) ABC analysis.
b) Tandon Committee Recommendations
c) Adequate working capital
d) Marketable securities.
