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

BBMBMC 313

Credit Based V Semester B.B.M. Examination, Oct./Nov. 2014
(2012 Scheme)
FINANCIAL MANAGEMENT
Paper – I : Working Capital Management (Elective)

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** : **(2×10=20)**

1. a) What is permanent working capital ?
   b) What is meant by "letter of credit" ?
   c) What are treasury bills ?
   d) What are credit terms ?
   e) What is creditors turnover ratio ?
   f) What is cross-boarder lease ?
   g) What are carrying costs ?
   h) What is float ?
   i) What is conservative approach of financing current assets ?
   j) What is delinquency cost ?
   k) What is operating cycle ?
   l) What are conversion costs as per Baumols' Model ?

SECTION – B
(8 marks **each**)

Answer **any five** : **(8×5=40)**

2. What are the problems associated with excessive level of working capital ?
3. Explain the costs and benefits of extending credit.
4. Explain the cost and benefits of holding inventory.

P.T.O.

5. From the following information of Star Ltd., compute the operating cycle in days.
Period covered : 360 days

	₹
Raw material consumption	22,00,000
Total production cost	50,00,000
Total cost of sales	52,50,000
Sales for the year	80,00,000
Average debtors outstanding	2,40,000
Average period of credit allowed by suppliers	14 days
Value of average stock maintained :	
Raw materials	1,60,000
Work-in-progress	1,75,000
Finished goods	1,30,000

6. Prestige Ltd. is examining the question of relaxing its credit policy. It sells at present 10000 units at a price of ₹ 100 per unit, the variable cost per unit is ₹ 88 and the average cost per unit at the current sales volume is ₹ 92. All sales are on credit. The average collection period is 36 days.

A relaxed credit policy is expected to increase sales by 10% and the average age of receivables to 60 days.

Assuming 15% return, should the firm relax its credit policy ?

7. Following details are available in respect of Delight Ltd.
   1) Annual inventory requirement 3600 units.
   2) Carrying costs per item for one year, Re. 1.
   3) Cost of placing each order ₹ 50.
   4) Alternative order sizes ; (units) :
      3600 ; 1800 : 900 : 300 : 150

Determine economic order quantity under trial and error approach.

8. Ideal Ltd., sells its products through widely dispersed distributors. It currently takes on an average 10 days for cash receipt cheques to become available to the firm from the day they are mailed. The firm is contemplating the institution of concentration banking to reduce this period. It is estimated that such a system would reduce collection period of accounts receivable by 4 days.

The daily cheque receipts currently average ₹ 5,00,000.

The concentration banking would cost ₹ 1,50,000 annually and the cost of funds is 15%.
   a) Whether the firm should introduce concentration banking system.
   b) Will your answer be different if it is estimated that a lock-box system can reduce the collection period by 5 days and its annual cost would be ₹ 2,00,000.

SECTION – C
(**20** marks **each**)

Answer **any three** : **(20×3=60)**

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

Elements of cost :	**Amount per unit (₹)**
Raw materials	60
Direct labour	20
Overheads	40
Total cost per unit	**120**
Profit	30
Selling price	**150**

The following additional information are available :

a) Raw materials in stock, average one month.
b) Materials in process, average half a month (Assume 100% completion stage in respect of materials and 50% completion stage in respect of conversion costs).
c) Finished goods in stock, average one month.
d) Credit allowed by suppliers, average one month.
e) Credit allowed to debtors, average two months, 50% of sales are on cash basis.
f) Time lag in payment of wages, average half a month and of overhead, average one month.
g) Cash balance is expected to be ₹ 2,00,000.
h) Level of activity is estimated to be 50000 units of output.
i) Assume that sales and production follow a constant pattern.
j) Safety margin of 15% to be added to the computed figures.

You are required to prepare statement showing estimation of working capital.

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	June	80,000
March	1,40,000	July	1,00,000
April	80,000	Aug.	80,000
May	60,000	Sept.	60,000
		Oct.	1,00,000

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

	₹
April	9,000
May	8,000
June	10,000
July	10,000
Aug.	9,000
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 ₹ 3,000 each.

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

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

11\. a) Megha Ltd. has an option of purchasing a machine or get it on lease. The machine can be purchased for ₹ 12,00,000. It is expected to have useful life of 4 years. The purchase can be financed by 20% loan. Loan repayable in 4 equal annual installments becoming due at the end of each year. **10**

Alternatively machine can be taken on lease, on year end lease rentals of ₹ 3,60,000 for 4 years. Tax rate is 50% and cost of capital is 18%.

Determine :

a) Present value of cash flows under leasing alternative.

b) Amount of equivalent annual loan instalment to be paid.

Note :

i) The present value annuity of Re. 1 at the end of 4 years at 10% discount rate is 3.170.

ii) Present value of Re. 1 at 20% discount rate at the end of each year from 1 to 4th year is as follows.

Year	1	2	3	4
PV at 20%	0.833	0.694	0.579	0.482

b) What is lease ? Explain the types of lease. **10**

12\. Write short notes on **any three** of the following : **20**

a) Any five determinants of working capital

b) Credit policy

c) Marketable securities

d) ABC analysis.

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