

L.F.

Reg. No.

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



BBMBMC 313

**Credit Based V Semester B.B.M. Degree Examination,
October/November 2016
(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

(2×10=20)

Answer **any ten** questions. (2 marks each)

1. a) Give the meaning of positive net working capital.
- b) What is letter of credit ?
- c) What are treasury bills ?
- d) What is meant by lethargy ?
- e) State the meaning of credit standard.
- f) What do you mean by carrying costs ?
- g) What do you mean by FSN analysis ?
- h) What is lead time ?
- i) What is creditors turnover ratio ?
- j) Expand "2/20, net 40".
- k) What is Financial lease ?
- l) State the control limits set for cash balances according to Miller-Orr Model.

P.T.O.

SECTION - B

(8×5=40)

Answer any five questions. (8 marks each)

2. What are the approaches of financing current assets ?
3. Explain the motives behind holding cash.
4. Explain the costs and benefits involved in extending credit.
5. From the following data relating to a company, compute operating cycle and estimate the amount of working capital assuming 360 days in a year.

	₹
Sales for the year	50,00,000
Purchases for the year	30,00,000
Raw material consumption	7,50,000
Total production cost	18,50,000
Total cost of sales	22,25,000
Average trade creditors	1,45,000
Average total of debtors outstanding	1,60,000
Value of average stock maintained :	
Raw materials	80,000
Work in process	1,00,000
Finished goods	66,500



6. Rudra Ltd. uses continuous billing system that results in an average daily receipts of ₹ 12 lakhs. 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 ₹ 4,00,000 annually and 15% can be earned on the investments.

- i) Advise Rudra 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 ₹ 5,10,000.

7. Star Ltd. provides you the following information.

Particulars	Present Policy	Proposed Policy
Credit Sales	₹ 2,50,000	₹ 1,50,000
Selling Price Per unit	₹ 50	₹ 50
Average collection period	90 days	45 days
Variable cost	85% of sales	85% of sales
Required Rate of Return (Pre-tax)	20%	20%
Bad debt	5%	2.5%
Fixed cost	₹ 12,500	₹ 12,500

Suggest which policy is best ?

8. A firm's annual requirement of inventory is 12,000 units. Its carrying cost per unit is ₹ 10 and ordering cost per order is ₹ 40.

The firm can order inventories in various lots as :

12,000, 6,000, 3,000, 1,500, 1,000, 300, 100.

Which of these order quantities is Economic order quantity. Find using tabular/trial and error method.



SECTION – C

(20×3=60)

Answer any three questions. (20 marks each)

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

Elements of cost	cost per unit (₹)
Raw materials	30
Direct wages	15
Manufacturing Expenses (Excluding depreciation ₹ 5)	10
Selling and distribution expenses	15

Additional Information :

- The proposed production is 1,30,000 units.
- Firm keeps 2 months stock of raw materials.
- The production process time is 1 month.
(Assume full raw materials and other expenses at 50%)
- Finished goods remain in warehouse for two months.
- Suppliers of materials extend two months credit.
- Credit period allowed to customers is $3\frac{1}{2}$ month.
- Firm wants to maintain minimum cash balance of ₹ 1,25,000.
- All expenses are paid one month in arrears.
- Selling price is ₹ 80.
- Add 10% safety margin.

10. Prepare the cash budget for April to October 2015 from the information given below :

a) Estimated sales and expense on salary.

Months	Sales	Salaries
	₹	₹
March	30,000	3,000
April	30,000	3,000
May	52,000	3,500
June	50,000	35,000
July	75,000	4,000
August	90,000	4,000
September	35,000	3,000
October	25,000	3,000
November	25,000	3,000

b) The other monthly expenses are :

Rent	₹ 1,000
Depreciation	₹ 1,000
Miscellaneous Expenses	₹ 500
Sales commission	1% of sales

c) Of the sales, 20% for cash and 80% on credit.



- d) Credit sales are collected in the month following the sales.
 - e) Gross profit margin is 30%.
 - f) Purchases equal to next month's sales are made every month and they are paid during the month in which they are made.
 - g) The firm maintains minimum cash balance of ₹ 10,000.
 - h) The opening cash balance on 1st April 2015 is ₹ 20,500.
 - i) 18,000 equity shares of ₹ 10 each issued on 1st September 2015.
 - j) Plant purchased and payment of ₹ 80,000 made in the month of September.
11. a) Advise the company whether it should go for debt financing or lease financing. 12
- 1) Cost of the asset to be financed ₹ 1,200 lakhs.
 - 2) 10% loan repayable in 4 equal installments at the end of each year. Annual loan installment is 379 lakhs.
 - 3) Method of depreciation is straight line method.
 - 4) Tax rate is 30%.
 - 5) Under leasing alternative annual lease rental of ₹ 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% :		0.93	0.87	0.82	0.76

- b) Explain the advantages of leasing to the Lessee.



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

- a) Tandon committee Recommendations.
 - b) Credit policies in receivables management.
 - c) Any 5 factors determining working capital.
 - d) Techniques of inventory control.
-