

Reg. No.

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

**BBMBMC 313**

**Credit Based V Semester B.B.M. Degree Examination,  
October/November 2017  
(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**

Answer **any ten** questions. (2 marks each) **(2×10=20)**

1. a) Give the meaning of net working capital.
- b) What is financing mix in working capital management ?
- c) List out the sources of working capital.
- d) What is lethargy ?
- e) List out any four selection criterion of marketable securities.
- f) Expand "3/20 net 40".
- g) What is lead time ?
- h) What is default cost ?
- i) What is credit policy ?
- j) What is total cost in inventory management ?
- k) What is tripartite lease ?
- l) What is lease financing ?

**SECTION – B**

Answer **any five** questions. (8 marks each) **(8×5=40)**

2. Explain motives for holding cash.
3. Explain any 8 determinants of working capital requirement.
4. Explain the techniques of Inventory Management.

P.T.O.





5. From the following particulars extracted from the books of a manufacturing company, compute the operating cycle in days :

	Rs.
Raw materials consumed	48,00,000
Cost of production	1,08,00,000
Cost of Finished goods	2,25,00,000
Credit sales	2,10,00,000
Average debtors	7,00,000
Credit purchases	72,00,000
Average creditors	4,00,000
Value of average stock maintained :	
Raw material	4,00,000
Work in progress	3,00,000
Finished Goods	5,00,000

Assume 1 year = 360 days.

6. Varun company currently makes all sales on credit and offers no cash discount. It is considering a 2% cash discount for payment within 10 days. The firm's current average collection period is 60 days. Sales are 2,00,000 units, selling price is Rs. 30 per unit, variable cost per unit is Rs. 25 at the current sales volume.

It is expected that the change in credit terms will result in increase in sales to 2,25,000 units and the average collection period will fall to 45 days. However, due to increased sales increased working capital required will be Rs. 1,00,000 (it does not take into account the effect on debtors). Assuming that 50% of the total sales will be on cash discount in proposed plan. 20% is the required return on investment. Should the proposed discount be offered ?

7. From the following information calculate the net savings under concentration banking and lock box system.

- Average daily receipt Rs. 50,00,000.
- Collection period of account receivables would reduce by 3 days in concentration banking system concentration banking would cost Rs. 1,50,000.
- Collection period of account receivables would reduce by 9 days in lock box system. Lock box would cost Rs. 3,00,000.
- Earning rate on investment is 12% Among these two, suggest the best system.

8. A firm's inventory planning period is one year. Its inventory requirement for this period is 1600 units. Assume that its acquisition costs are Rs. 50 per order. The carrying costs are expected to be Re. 1 per unit per year for an item.

The firm can procure inventories in various lots as follows :

- 1600 units
- 800 units
- 400 units
- 200 units
- 100 units.

Which of these order quantities is the economic order quantity ?

Note : Apply Trial and error approach.





SECTION – C

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

9. Proforma cost sheet of a company shows the following particulars :

Elements of cost	Amount per Unit
	Rs.
Raw materials	70
Direct labour	30
Overheads	50
Profit	50
Selling price	200

The following particulars are available.

- a) Raw materials are in stock on an average for two months.
- b) Materials are in process on an average for one month.
- c) Finished goods are in stock on an average for two months.
- d) 25% of the output is sold for cash.
- e) Credit allowed by creditors is two months.
- f) Credit allowed to customers is two months.
- g) Lag in payment of wages is one month.
- h) Lag in payment of overhead expenses is one month
- i) cash in hand and at bank is expected to be Rs. 30,000.

You are required to prepare a statement showing the working capital needed to finance a level of 52,000 units of production.

**Note :** 1) Work in process is assumed to be 100% complete in respect of material and 50% in respect of labour and over heads.

2) Debtors is to be calculated on the basis of cost of sales.

10. The following information is available relating to the Souharda Company

1) Sales forecast (Rs.)

May 80,000, August 1,20,000, November 1,00,000, June 84,000, September 1,60,000, December 1,16,000 July 90,000, October 1,40,000.

2) Monthly commission received Rs. 5,000

3) Purchase of raw material (Rs.)

June 60,000, September 1,50,000, December 1,20,000, July 75,000, October 90,000, August 90,000, November 40,000.





- 4) All sales are on credit collection estimates :
- i) With in the month of sale 20%.
  - ii) During the month the following sale 50%.
  - iii) During the second month the following sale 30%.
- 5) For payment of raw materials lag in period is one month.
- 6) Miscellaneous :
- i) Salary payment Rs. 20,000 p.m.
  - ii) Lease payment Rs. 5,000 p.m.
  - iii) Income tax payment Rs. 50,000 in September and Rs. 17,000 in December.
  - iv) Purchase of machinery Rs. 90,000 in October.
  - v) Opening cash as on 1<sup>st</sup> July Rs. 10,000.
  - vi) Minimum cash balance is Rs. 50,000 throughout the period.
- Prepare monthly cash budget for 6 months from July to December.

11. a) Hypothetical Ltd. is extending its facilities in the coming year, the company is either purchase or lease equipment with its plan to use for 4 years and then replace it with a new one. Its current tax bracket is 50%. Other data are as follows :
- i) Purchase price of the equipment is Rs. 40,00,000.
  - ii) Equipment is subject to straight line method of depreciation.
  - iii) Funds to finance the equipment can be obtained at 16% and the loan is to be repaid in 4 equal annual instalments due at the end of each year.
  - iv) In leasing option, annual lease is Rs. 10,00,000.

Determine whether the company should purchase or lease the equipment ?

**Note** : Present Values Annuity @ 8% for 4 years is 3.312 and 16% for 4 years is 2.798. Present value factor @ 8% for 4 years :

1 year : 0.926

2<sup>nd</sup> yr : 0.857

3<sup>rd</sup> yr : 0.794

4<sup>th</sup> yr : 0.735

12

8

- b) Explain the advantages of leasing to lessee.
12. Write short notes on the following :
- a) Approaches of financing current assets.
  - b) Costs and benefits of holding inventory.
  - c) Marketable securities alternatives.
  - d) Credit policies in receivable management.