(A-65) SARDAR PATEL UNIVERSITY
B.B.A. [HONOURS][ITM] - VI[th] Semester
Friday, 20 March 2015
2.30 – 4.30 pm
Subject Code: UM05EBBI03
Subject: Practices of FinancialManagement

Total Marks: 60

Q1[a] List out the various sources of working capital finance and explain in detail any two of them. [15]

OR

Q1[a] A proforma cost sheet of a company provides the following data: [10]

Particulars	Amt. (Rs.)
Cost per unit:	
Raw Materials	52.0
Direct Labour	19.5
Overheads	39.0
Total	110.5
Profit	19.5
Selling Price	130.0

The following is the additional information is available:
Average raw material in stock is one month; average materials in process are half a month and finished goods in stock are one month. Credit allowed by suppliers is one month; credit allowed to debtors is two months. Time lag in payment of wages is one and a half weeks, overheads is one month. One-fourth of the sales are on cash basis. Cash balance is expected to be Rs.1,20,000. You are required to prepare a statement showing the working capital needed to finance a level of activity of 70,000 units of output.

Q1[b] Write a note on operating cycle. [05]

Q2[a] From the following information prepare cash budget of Anand Ltd for 6 months for July to Dec. [15]

Month	Credit Sales	Material Rs	Wages Rs	Prod. Exp. Rs	Adm. Cost	Selling Exp	Distribution Cost	Research
April	1,00,000	40,000	10,000	4,400	3,000	1,600	800	1,000
May	1,20,000	60,000	11,200	4,800	2,900	1,700	900	1,000
June	80,000	40,000	8,000	5,600	3,000	1,500	700	1,200
July	1,00,000	60,000	8,000	4,600	2,900	1,400	900	1,200
Aug	1,20,000	70,000	10,000	5,600	3,000	1,900	1,100	1,400
Sep	1,40,000	80,000	10,000	5,400	3,000	2,000	1,200	1,400
Oct	1,60,000	90,000	10,000	5,800	3,100	2,250	1,250	1,600
Nov	1,80,000	1,00,000	11,000	6,000	3,100	2,150	1,250	1,400
Dec	2,00,000	1,10,000	11,600	6,400	2,200	2,300	1,500	1,600

Cash balance on 1st July was expected to be Rs 1,50,000.. Plant and machinery to be installed in Aug at a cost ofRs 40,000 to be payable in Sept.
Extension Research department amounting to be Rs 10,000 will be completed on 1st Aug, payable Rs2,000 per month from completion date.

Hire purchase charges of Rs 4,000 to be paid each month. Cash sales of Rs 2,000 per month are expected (no commission on cash sales is given.)
A sales commission of 5 % on credit sales is to be paid within the month, following the sales.

Credit Period allowed by the suppliers	3 months.
Credit period allowed to the customers	2 months
Delay in payment of wages	1 month
Delay in payment of all other cost	1 month

Income tax of Rs 1,00,000 is to be paid on 1 st Oct. Preference dividend amounted to Rs 20,000 is to be paid on 1st Nov.10 % calls on ordinary shares (ordinary share of Rs 4,00,000) is due to be received on 1st July and 1st Sep.
Dividend is to be received amounting to Rs 30,000 in Nov.

OR

Q2[a] The hypothetical Lt. Has currently annual credit sales of Rs. 7,80,000. Its average age of accounts receivable is 60 days. It is contemplating a change in its credit policy that is expected to increase sales to Rs. 10,00,000 and increase the average age of receivables to 72 days.
The firm's sales price is Rs. 25 per unit. The VC per unit is Rs. 12 and the average cost per unit at the existing sales volume is Rs. 17. The expected rate of return on investment is 15%. Assume a 360 days in a year and advise the co. [10]

Q2[b] What are the ways of credit analysis? [05]

Q3[a] Ten items kept in inventory by the School of Management Studies are listed below. Which items should be classified as 'A', 'B' and 'C' category items? [10]

Item	Annual Usage	Value per unit (Rs.)
1	200	40.00
2	100	360.00
3	2000	0.20
4	400	20.00
5	6000	0.04
6	1200	0.80
7	120	100.00
8	2000	0.70
9	1000	1.00
10	80	400.00

Q3[b] For the following inventory problem find out EOQ and Re-order point. [05]
Annual consumption – 12,000 units
Cost per unit – Re.1
Ordering cost – Rs. 12 per order
Inventory carrying charges – 24%
Normal lead time – 15 days

OR

Q3 Discuss in brief the various inventory management techniques. [15]

Q4[a] Explain the concept of cost of capital. What relevance does cost of capital have in decision-making? [10]

Q4[b] Calculate the cost of debt in the following situations: [05]

1. A Rs.100 debenture, redeemable at par, 20 year maturity, 8% coupon rate of interest, 4% floatation cost, sale price Rs.100, tax rate 50%.
2. A Rs.100 debenture, redeemable at par, 15 year maturity, 10% rate of interest, 5% floatation cost, sale price Rs.100, tax rate 50%.

OR

Q4[a] A company has the following capital structure: [10]

Equity share capital (2,00,000 shares)	Rs.40,00,000
6% Preference shares	10,00,000
8% Debentures	30,00,000
Total	80,00,000

The market price of the company's equity share is Rs.20. It is expected that the company will pay a dividend of Rs.2 per share which will grow at 7% for ever. The tax rate may be presumed at 50%. You are required to compute the weighted average cost of capital based on existing capital structure.

Q4[b] Explain the computation of cost of preference capital. [05]

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