[1/A-2]

SEAT No.________ 1

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SARDAR PATEL UNIVERSITY

B.B.A. [GEN] Examination, IV Semester

Friday, 12th April, 2019

Session: Morning Time: 10.00 a.m. To 12.00 p.m.

Subject Code: UM04CBBA02

Subject: Financial Management-II

Total Marks: 60

Q1[a] Write a brief note on trade credit and commercial papers as a source of working capital finance. [07]

Q1[b] From the following facts provided to you, estimate the working capital required. Add 10% your computed figure to allow for contingencies. [08]

Particulars	Amount (Rs.)
Estimated cost per unit of production:	
Raw material	40
Direct labour	15
Overheads (exclusive of depreciation)	30
Total cost	75

Additional information:

Selling price	106 per unit,
Level of activity	1,00,000 units p.a.
Raw material in stock	average 4 weeks
Work-in-process(assume 50% completion stage)	average 2 weeks
Finished goods in stock	average 4 weeks
Credit allowed by suppliers	average 4 weeks
Credit allowed to debtors	average 8 weeks
Lag in payment of wages	average 1 & 1\2 weeks
Cash at bank is expected to be	1,25,000

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit.

OR

Q1[a] What is an operating cycle? Explain the computation of operating cycle with imaginary figures. [07]

Q1[b] From the following information, extracted from the books of a manufacturing company, compute the operating cycle on days. [08]

Period covered = 360 days

Average period of credit allowed by suppliers = 16 days

	(Rs. In '000)
Raw material consumption	4320
Total production cost	9000
Total cost of sales	10800
Sales of the year	16200
Average debtors	450

(P.T.O.)

Value of average stock maintained:

Raw material	324
Work in progress	350
Finished goods	270

2[a] From the following information prepare a cash budget from March to August considering the opening cash balance to be Rs. 12,000. [10]

Month	Sales	Selling Exp.	Purchases	Wages	Factory Overheads
January	17,000	700	8,000	1,500	1,500
February	16,000	750	8,400	1,600	1,650
March	18,200	650	8,300	1,680	1,250
April	15,500	680	8,300	1,200	1,525
May	16,500	740	7,600	1,800	1,740
June	20,000	700	6,800	1,600	1,530
July	18,000	600	7,000	1,700	1,300
August	22,000	550	5,800	1,650	1,510

1. Period for credit allowed by suppliers and to customers is one month.
2. Lag in payment of wages, factory overheads and selling expenses is one month.
3. Machinery purchased for Rs.5000 in March payable on delivery.
4. Building purchased in April for Rs.15,000 payable in two equal installments in May and July.
5. Commission of 3% on sales payable two months after sales.

[b] What are the costs associated with inventory management? [05]

OR

2[a] From the following details, classify the items into ABC category. [07]

Item	Units	Unit cost (Rs.)
1	7,000	5.00
2	24,000	3.00
3	1,500	10.00
4	600	22.00
5	38,000	1.50
6	40,000	0.50
7	60,000	0.20
8	3,000	3.50
9	300	8.00
10	29,000	0.40
11	11,500	7.10
12	4,100	6.20

[b] Calculate EOQ from the following information: [03]

Annual requirement – 3,000 units
Cost per unit – Rs. 20
Ordering cost per order – Rs. 30
Carrying cost per unit – Re.0.50

[c] Briefly discuss the motives for holding cash in business. [05]

3[a] Sagar 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.20 and average cost per unit is Rs.25 at the current sales volume. [08]

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. Assuming that 50% of the total sales will be on cash discount and 20% is the required rate of return on investment, should the proposed discount be offered?

[b] What are the 5C's of receivables management and explain the ways of credit analysis. [07]

OR

3[a] The following are the details regarding the operation of a firm during a period of 12 months: [08]

Sales	12,00,000
Selling price per unit	10
Variable cost per unit	7
Total cost per unit	9
Credit period allowed to customers	One month

The firm is considering a proposal for a more liberal extension of credit by increasing the average collection period from one month to two months. This relaxation is expected to increase the sales by 25%. You are required to advise the firm regarding adopting of the new credit policy, presuming that the firm's required return on investment is 25%.

[b] Write a brief note on credit policy variables. [07]

Q4[a] The share capital of a company is Rs.10,00,000 with shares of face value of Rs.10. The company has debt capital of Rs.6,00,000 at 10% rate of interest. The sales of the firm are 3,00,000 units per annum at a selling price of Rs.5 per unit and the variable cost is Rs. 3 per unit. The fixed cost amounts to Rs.2,00,000. The company pays tax at 35%. If the sales increase by 10%, calculate: [10]

- Percentage increase in EPS.
- Operating leverage at the two levels.
- Financial leverage at the two levels.

Q4[b] Explain the concept of combined leverage and illustrate. [05]

OR

(P.T.O)

Q4[a] From the following information available for four companies. Calculate EBIT, EPS, Operating Leverage, Financial Leverage, combined leverage. [10]

Particulars	A	B
Selling Price/Unit [Rs]	25	30
Variable Cost/Unit [Rs]	20	25
Quantity [Nos]	30,000	40,000
Fixed Costs [Rs]	50,000	60,000
Interest [Rs]	35,000	40,000
Tax Rate [%]	40	40
No. of Equity Shares	10,000	12,000

Q4[b] Explain the concept of operating and financial leverage with suitable examples. [05]

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