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SARDAR PATEL UNIVERSITY
T Y BBAITM-SEM-VI EXAMINATION
2015
Friday, April 10
10.30am TO 12.30pm

Practices of Financial Management [UM06EBBI03]

Total Marks : 60

Note : (1) Figures to the right indicate full marks of each question
(2) All working notes are part of the answer.

Q1[a] Discuss concept and significance of working capital management. [08]

Q1[b] From the following data calculate operating cycle. [07]

Balance	Opening Balance [Rs.]	Closing balance [Rs.]
Raw Material	80,000	1,20,000
Work in Progress	20,000	60,000
Finished Goods	60,000	20,000
Book debts	40,000	40,000
Purchase of RM [All credit]		4,00,000
Wages & Manufacturing Expenses		2,00,000
Sales [All credit]		10,00,000

The co. obtains a credit for 60 days from its suppliers. All goods were sold for credit. Assume 365 days in a year.

OR

Q1[a] Write a note: [1] Bank Finance [2] Relative Asset Liquidity & Relative Financing Liquidity [07]

Q1[b] While preparing a project on behalf of a client you have collected the following facts. Estimate the net working capital required for that project. Add 10% to your computed figure to allow for contingencies. [08]

Estimated cost per unit of production is:	Amount per unit [Rs]
Raw material	42.4
Direct labour	15.9
Overheads [exclusive of depreciation]	31.8
Total cost	90.1

Additional information:

Selling price	Rs. 106/-
Level of activity	100000 units of production p.a.
RM in stock	4 weeks
WIP [50% completion stage]	2 weeks
FG in stock	4 weeks
Credit allowed by suppliers	4 weeks
Credit allowed to debtors	8 weeks
Lag in payment of wages	1&1/2 weeks
Cash at bank	Rs. 1,25,000

You may assume that production is carried on evenly throughout the year [52 weeks] and wages & overheads accrue similarly. All sales are on credit basis only.

Q2[a] Discuss credit policy variables. [07]

Q2[a] Prepare a cash budget for 3 months ended 30th September based on the following information. [08]

1. Cash at bank on 1st July Rs. 25,000.
2. Salaries & Wages estimated monthly Rs. 10,000.
3. Interest payable in Aug. Rs. 5000.

Other details:

Estimated	June	July	Aug.	Sept.
Cash Sale	-	140000	152000	121000
Credit Sales	100000	80000	140000	120000
Purchases	160000	170000	240000	180000
Other expenses	-	20000	22000	21000

[a] Cr. Sales are collected 50% in the month sales are made & 50% in the following month.

[b] Collection from credit sales are subject to 5% discount if payment is received during the month of sale and 2.5% if payment is received in the month following.

[c] Creditors are paid either prompt or 30 days basis. It is estimated that 10% creditors are in prompt category.

[d] Other expenses are paid on accrual basis.

OR

Q2[a] A co. sells 40,000 units of its product per annum @ Rs. 35 per unit. The cost per unit is Rs. 31 and the variable cost per unit is Rs. 28. The average collection period is 60 days. Bad debt losses are 3% of sales and the collection charges amount to Rs. 15,000. The co. is considering a proposal to follow a stricter collection policy which would reduce bad debt losses to 1% of sales and the average collection period to 45 days. It would, however, reduce sales volume by 1000 units and increase the collection expenses to Rs. 25,000. The co.'s required rate of return is 20%. Would you recommend the adoption of the new collection policy? Assume 360 days in a year. [10]

Q2[b] Discuss the ways of managing cashflow. [05]

Q3[a] The following information is known about a group of items. Classify them into ABC and draw a graph. [08]

Item	Units	Unit Price [Rs]
1	2100	6
2	3000	1
3	900	40
4	1800	8
5	300	100
6	600	70
7	2400	4
8	1200	20
9	2700	2
10	1500	10

Q3[b] What are the types of inventory? Why should inventory be held? [07]

OR

Q3[a] Critically evaluate investment in inventory. [09]

Q3[b] Two components, A and B are, used as follows: [06]

Normal usage	50 units each per week
Minimum usage	25 units each per week
Maximum usage	75 units each per week
Re-order quantity	A: 300 units, B: 500 units
Re-order period	A: 4 to 6 weeks, B: 2 to 4 weeks

Calculate for each component: Reorder level, Minimum level, Maximum level, and Average stock level.

Q4 As a financial analyst of a co., you are required to determine the WACC of the co. using BV and MV weights. The following information is available for your perusal. The co.'s present book value capital structure is: [12]

Capital Structure	Book Value [Rs]
Debentures (Rs. 100 per debenture)	8,00,000
Preference shares (Rs. 100 per share)	2,00,000
Equity shares (Rs. 10 per share)	10,00,000
	20,00,000

All the securities are traded in the capital markets. Recent prices are :

Debentures Rs. 110 per debenture, Preference shares Rs. 120 per share, and Equity shares Rs. 22 per share.

Anticipated external financing opportunities are:

1. Rs. 100 per debenture redeemable at par, 10 years maturity, 11% coupon rate, 4% flotation cost, Sales price Rs. 100. The corporate tax rate is 35%.
2. Rs. 100 per preference share redeemable at par, 10 years maturity, 12% dividend rate, 5% flotation cost, Sales price Rs. 100.
3. Equity shares Rs. 2 per share floatation cost, Sales price Rs. 22. The dividend expected at the end of the year is Rs. 2 per share and the anticipated growth rate in dividend is 7%.

Q4[b] Explain explicit and implicit cost. [03]

OR

Q4[a] How do you calculate cost of preference share? Illustrate. [07]

Q4[b] What do you mean by cost of capital? Why is it significant? [08]

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