(LL &A-3)

No of Printed Pages : 3

Seat No.:-______

SARDAR PATEL UNIVERSITY

B.B.A.[HONOURS][ITM] - VIth Semester

Tuesday, 3rd April, 2018

Session: Morning Time: 10:00 A.M. TO 12:00 P.M.

Subject Code: UM06EBBI03

Subject: Practices of Financial Management

Total Marks: 60

Q. 1[a] What is working capital? Explain the factors affecting working capital decision of a firm. [15]

OR

Q1[a] From the following information you are required to estimate the working capital required. [10]

Particulars	Cost per unit (Rs)
Raw material	200
Direct labour	100
Overheads(excluding depreciation)	250
Total Cost	550

Estimated data for the forth coming period are given below:

Raw materials in stock	Average 6 weeks
Work in progress(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 6 weeks
Cash at bank	Rs 75000
Selling price	Rs 800 per Unit
output	52000 per annum

Q1[b] Write a brief note on the sources of working capital finance. [05]

Q2 Write a note on: [15]

1. Credit policy variables
2. Credit evaluation

OR

Q2 From the information and the assumption that the cash balance on hand on 1st January is Rs.1,72,500, prepare a cash budget for January to June. [15]

Month	Sales (Rs.)	Purchases (Rs.)	Salaries (Rs.)	Production overheads (Rs.)	Selling overheads (Rs.)
January	72,000	25,000	10,000	6,000	5,500
February	97,000	31,000	12,100	6,300	6,700
March	86,000	25,500	10,600	6,000	7,500
April	88,600	30,600	25,000	6,500	8,900
May	1,02,500	37,000	22,000	8,000	11,000
June	1,08,700	38,800	23,000	8,200	11,500

Assume that 50% of the total sales are cash sales. Assets are to be acquired in the months of February and April. Therefore, provisions should be made for the payment of Rs.8,000 and Rs.25,000 for the same. An anticipation has been made to the bank for the grant of loan of Rs.30,000 and it is hoped that the loan amount will be received in the month of May. It is anticipated that a dividend of Rs.35,000 will be paid in June. Debtors are allowed one month's credit. Creditors for materials purchased and overheads grant one month's credit. Sales commission at 3% on sales is paid to the salesman each month.

Q3 Discuss the various inventory management techniques. [15]

OR

Q3[a] Calculate EOQ from the following information: [07]

Annual requirement – 3,000 units
Cost per unit – Rs. 20
Ordering cost per order – Rs. 30
Carrying cost per unit – Re.0.50
Lot sizes - 3000, 1500, 1000, 750, 600 and 500 units.

Q3[b] A company has 10 different items in its inventory. Suggest a breakdown of the items into A, B,& C classification. [08]

Item No.	No. of units	Cost per unit
1	35,000	10
2	40,000	4
3	10,000	40
4	5,000	100
5	15,000	10
6	22,000	3
7	90,000	1
8	1,28,000	0.5
9	30,000	2
10	25,000	3

Q4[a] What is the concept of cost of capital? Why is it important in financial management? [10]

Q4[b] Explain with illustration the estimation of cost of preference capital. [05]

OR

Q4[a] Assuming a corporate tax rate of 35 per cent, compute the after-tax cost of the capital in the following situations: [10]

a. A perpetual 15 per cent debentures of Rs 1,000, sold at the premium of 10 per cent with no flotation costs.
b. A ten year 14 per cent debenture of Rs 2,000, redeemable at par, with 5 per cent flotation costs.
c. A ten year 14 per cent preference share of Rs 100, redeemable at premium of 5 per cent, with 5 per cent flotation costs.
d. An equity share selling at Rs 50 and paying a dividend of Rs 6 per share, which is expected to be continued indefinitely.
e. (e) The same equity share (that is, described in situation (d), if dividends are expected to grow at the rate of 5 per cent.

Q4[b] **Calculate the explicit cost of debt for each of the following situations:** [05]

A. Debentures are sold at premium of 10% and floatation costs are 5% of issue price.
B. Debentures are sold at discount of 5% and floatation costs are 5% of issue price.

Assume:

a. Coupon rate of interest on debentures is 10%;
b. Face value of debentures is Rs. 100;
c. Maturity period is 10 years; and
d. Tax rate is 35%.