

SEAT No. _____

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[A-34]

SARDAR PATEL UNIVERSITY
BBA (ITM) SEM: VI EXAMINATION (NC) (2010 Batch)
2018

Thursday, 12th April
02:00 A.M. to 04.00 P.M.

UM06EBBI03

PRACTICES OF FINANCIAL MANAGEMENT

Total Marks: 60

Note: Figures to the right indicate marks of each question.
All working notes are part of the answer.

- Q:1[A] What is working capital? Explain significance of working capital. [08]
[B] Calculate operating cycle period of a company by considering [07]
following details regarding its operations.

Particulars	Days/Amt
Period Covered	365 days
Average period of credit allowed by suppliers	26 days
Average debtor outstanding	480
Raw material consumption	4,400
Cost of production	10,000
Cost of sales	10,500
Annual sales	16,000
<u>Average value of stock maintained:</u>	
Raw material	320
Work in progress	350
Finished goods	260

OR

- Q:1[A] From the following information, you are required to estimate working capital requirement. [08]

Raw material	Rs.200
Direct labour	Rs.100
Overhead (excluding dep.)	Rs.250
Total cost [per unit]	Rs.550

Estimated data for the forthcoming period are given below:

Raw material in stock	Average 6 weeks
Work in progress (assume 50% completion stage with 100% material consumption)	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. 75,000
Selling price	Rs.800 per unit
Output	52,000 units p.a.

Assume that production is sustained at even pace during 52 weeks of the year. All sales are credit basis.

- [B] Write a note on: Trade Credit. [07]

C.P.T.O.)

Q:2[A] From the following information of Aadhya Ltd. prepare cash budget for the three months from April to June, 2017. [10]

(1) Cash & bank balance on 1-4-2017 Rs.20,000.

Months	Sales	Purchases	Wages	Overhead Exps.
February	2,00,000	1,00,000	40,000	30,000
March	1,50,000	90,000	36,000	20,000
April	2,25,000	1,10,000	48,000	35,000
May	3,00,000	1,60,000	50,000	40,000
June	1,75,000	80,000	42,000	25,000

(3) Assume 20% of total sales as cash sales and 80% of credit sales.

(4) 50% of credit sales are realised in the month following sales and remaining 50% in the next month following.

(5) Commission on sales at 2% on total sales is to be paid within a month following actual sales.

(6) The period of credit allowed by supplier is one month.

(7) The time lag in payment of wages is $\frac{1}{4}$ month and lag in payment of overhead expenses is $\frac{1}{2}$ month.

(8) Dividend of Rs.20,000 for the year 2016-17 is to be paid in June 2017.

[B] Explain 5'Cs of credit evaluation of customers. [05]

OR

Q:2[A] Star Ltd has at present annual sales level of Rs.10,000 units and Rs. 300 per unit. The variable cost is Rs.200 per unit and fixed cost amount to Rs.3,00,000 per annum. The present credit period allowed by the company is 1 month. The company is considering a proposal to increase the credit period to 2 months and 3 months and has made the following estimates: [10]

Particulars	Existing	Proposed	
		1 month	2 month
Credit period	1 month	2 month	3-month
Increase in sales (Per cent)	-	15	30
Bad Debt(Per cent)	1	3	5

There will be increase in fixed cost by Rs.50,000 on account of increase in sales beyond 25 percent of present level. The required return of return on investment in receivables 20 percent. Determine which collection policy should be adopted?

[B] What is cash management? Explain motives for holding cash. [05]

Q:3[A] Discuss various inventory management techniques. [09]

[B] A firm's annual requirement is 30,000 units. The acquisition cost amount to Rs.150 per order. The carrying cost is likely to be Rs 1.20 per unit per year. Assume the following order size (1)30,000 (2)15,000 (3) 6,000 (4)1500 (6)750.Determinethe EOQ. [06]

OR

Q:3[A] Two components X and Y are used as follows: [09]

Normal usage	600 units per week each
Maximum usage	900 units per week each
Minimum usage	300 units per week each
Re-order Quantity	X = 4,800 units
	Y = 7,200 units
Re-order Period	X = 4 to 6 weeks
	Y = 2 to 4 weeks

Calculate for each component:

- 1) Re order level
- 2) Minimum level
- 3) Maximum level
- 4) Average Stock level

[B] What is inventory? Explain nature/types of inventory. [06]

Q:4[A] Following details are available about Divya Ltd. [12]

Particulars	Amount
Equity Share Capital (Rs.10 each)	5,00,000
11% preference share capital (Rs.100 each)	1,00,000
Reserves and surplus	9,00,000
15% Debentures (each of Rs.100 each)	10,00,000

On equity shares, the next years expected rate of dividend is 20%.The growth rate of the earnings of the company is 10%.The average current market price of equity share is Rs.25.Assume that the cost of retained earnings is 3% less than cost of equity share capital. The current market price of preference share and debenture are Rs.60 and Rs.69 respectively. The tax rate applicable to company is 60%.Calculate WACC using:

- 1) Book value weight
- 2) Market value weight

[B] Explain: Historical Cost and Future Cost [03]

OR

Q:4[A] Define cost of capital. Explain its significance in financial decision making. [10]

[B] Calculate cost of retained earnings from the following information: [05]

Current market price of a share	Rs.140
Expected dividend per share	Rs.14
Growth in expected dividend	5%
Brokerage per share	3%
Tax rate on income distributes as dividend	22%

*****X*****

