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[A-48] **SEAT No.**________

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SARDAR PATEL UNIVERSITY

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

Wednesday, 10th April, 2019

Session: Evening Time: 2:00 P.M. TO 4:00 P.M.

Subject Code: UM06EBBI03

Subject: Practices of Financial Management

Total Marks: 60

Q1[a] What is working capital? What are its types? Briefly discuss the sources of working capital finance. [15]

OR

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

Particulars	Amount (Rs.)
Raw materials	80
Direct labour	30
Overhead	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available:
Raw materials in stock, on average, one month; Materials in process (completion stage, 50%), on average, half a month; finished goods in stock on average, one month.
Credit allowed by suppliers is one month; credit allowed to debtors is two month; average time-lag in payment of wages is 1.5 weeks and one month in overhead expenses; one-fourth of the output is sold against cash; cash in hand and at bank is desired to be maintained at Rs.3,65,000.
You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production. You may assume that production is carried on evenly throughout the year, and wages and overheads accrue similarly. For calculation purposes, 4 weeks may be taken as equivalent to a month.

Q1[b] Explain briefly the significance of working capital management. [05]

Q2 Write a note on credit policy variables and credit evaluation. [15]

OR

Q2[a] Goldy Ltd. has given the following particulars. You are required to prepare a cash budget for three months ending 31st Dec. 2010. [15]

Months	Sales	Materials	Wages	Overheads
August	40,000	20,400	7,600	3,800
September	42,000	20,000	7,600	4,200
October	46,000	19,600	8,000	4,600
November	50,000	20,000	8,400	4,800
December	60,000	21,600	9,000	5,000

Additional information:
Sales- 10% sales are on cash basis. 50% of the credit sales are collected next month and the balance in the following month.
Creditors- Material 2 months; Wages- 1/5 month; Overhead- ½ month.
Cash balance on 1st October, 2010 is expected to be Rs.8,000.
A machinery will be installed in August, 2010 at a cost of Rs.1,00,000.
Dividend at 10% on preference share capital of Rs.3,00,000 will be paid on 1st December, 2010.
Advance to be received for sale of vehicle Rs.20,000 in December.

(P.T.O.)

Income-tax (advance) to be paid in December Rs.5000.

OR

Q3[a] What is inventory management? What are the motives for holding inventory and which are the costs associated with inventory management? [10]

Q3[b] A firm has furnished following categorization of its holding of inventory. You are required to suggest a break-down on the items into A, B and C classification. [05]

Item No.	No. of units	cost per unit (Rs.)
1	20,000	60
2	10,000	100
3	32,000	11
4	28,000	10
5	60,000	3.5

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] Write a note on: [08]

1. Safety stock
2. Types of inventory

Q4[a] Discuss the concept and significance of cost of capital. [10]

Q4[b] Explain the computation of cost of debt with appropriate examples. [05]

OR

Q4[a] Assuming that a firm pays tax at a 50% rate, compute the after-tax cost of capital in the following cases: [10]

1. An 8.5% preference share sold at par.
2. A perpetual bond sold at par, coupon rate of interest being 7%.
3. A 10-year, 8%, Rs.1000 par bond sold at Rs.950 less 4% underwriting commission.
4. A preference share sold at Rs.100 with a 9% dividend and a redemption price of Rs.110 if the company redeems it in 5 years.
5. An ordinary share selling at a current market price of Rs.120, and paying a current dividend of Rs.50.

Q4[b] A company has on its books the following amounts and specific costs of each type of capital: [05]

Type of capital	Book value Rs.	Costs
Debt	4,00,000	5%
Preference	1,00,000	8%
Equity	6,00,000	13%
Retained earnings	2,00,000	
Total	13,00,000	

Determine the weighted average cost of capital using book value weights.

-x-x-x-x-x-x-x-x-