

[A-3]

SEAT No. _____

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SARDAR PATEL UNIVERSITY
B.B.A.[HONOURS][ITM] - VIth Semester

Friday, 29th March, 2019

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

Subject Code: UM06EBBI03

Subject: Practices of Financial Management

Total Marks: 60

- Q1[a] What are the factors affecting working capital management? [07]
Q1[b] From the following information, extracted from the books of a manufacturing co., compute the operating cycle period. [08]

Period covered	365 days
Average period allowed by suppliers	16 days
Average total of debtors outstanding	Rs. 48,000
Raw Material Consumption	Rs. 4,40,000
Total Production Cost	Rs. 10,00,000
Total Cost of Sales	Rs. 10,50,000
Sales for the year	Rs. 16,00,000
Value of Average Stock maintained:	
Raw Material	Rs. 32,000
Work-in-progress	Rs. 35,000
Finished Goods	Rs. 26,000

OR

- Q1[a] Enlist various sources of working capital financing and explain in detail any three of them. [15]
Q2[a] ABC Ltd. newly started company wishes to prepare a cash budget from January. Prepare a cash budget for the six months from the following information. [10]

Months	Sales	Materials	Wages	Overheads	
				Production	Selling
Jan	20,000	20,000	4,000	3,200	800
Feb	22,000	14,000	4,400	3,300	900
Mar	28,000	14,000	4,600	3,400	900
Apr	36,000	22,000	4,600	3,200	900
May	30,000	20,000	4,000	3,200	900
June	40,000	25,000	5,000	3,600	1,200

- Cash balance on 1st Jan was Rs.10,000.
- A new machinery is to be installed at Rs.20,000 on credit, to be repaid by two equal installments in March and April.
- Sales commission @ 5% on total sales to be paid within a month following actual sales.
- Rs.10,000 being the amount of second call may be received in March.
Share premium amounting to Rs.2,000 is also obtainable with the second call.
- Period of credit allowed by suppliers 2 months.

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(P.F.O.)

6. Period of credit allowed to customers 1 month.
7. Delay in payment of overheads 1 month.
8. Delay in payment of wages half a month.

Assume cash sales to be 50% of total sales.

Q2[b] What are the motives of holding cash in business? [05]

OR

Q2 Discuss the credit policy variables and credit evaluation. [15]

Q3[a] Write a short note on ABC analysis. [05]

Q3[b] For the following inventory problem find out EOQ and Re-order point. [05]

Annual consumption – 12,000 units

Cost per unit – Re.1

Ordering cost – Rs. 12 per order

Inventory carrying charges – 24%

Normal lead time – 15 days

Q3[c] What are the motives of holding inventory in business? [05]

OR

Q3 Discuss the various inventory management techniques. [15]

Q4[a] Explain the term cost of capital and discuss its significance in financial management. [10]

Q4[b] Explain the various types of costs. [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 perpetual 15 per cent debenture of Rs 1,000, sold at the premium of 10 per cent with no flotation costs.
- A ten year 14 per cent debenture of Rs 2,000, redeemable at par, with 5 per cent flotation costs.
- A ten year 14 per cent preference share of Rs 100, redeemable at premium of 5 per cent, with 5 per cent flotation costs.
- An equity share selling at Rs 50 and paying a dividend of Rs 6 per share, which is expected to be continued indefinitely.
- 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 weighted average cost of capital for a firm from the following information: [05]

Source	Amount (Rs.)	After-tax cost of capital
Debt	3,00,000	8%
Preference capital	2,00,000	14%
Equity capital	5,00,000	17%

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