Exam Seat No. ___

B. P. COLLEGE OF BUSINESS ADMINISTRATION

(Constituent College of Kadi Sarva Vishwavidyalaya)

BBA SEM – IV

Mid Semester Examination – March 2014

SUB: Financial Management – II (BBA 23)

Date: 14/03/14 **Total Marks: 60**
Day: Friday **Duration: 3 Hours**

Q. 1 (a) Prepare a statement showing estimation of working capital requirements from the following information about Aμ Ltd. (6)

Annual Sales ……………………………………………….…	Rs. 14,40,000
Cost of production (including depreciation of Rs. 1,20,000) ……	Rs. 12,00,000
Raw Material Purchases ………………………………………	Rs. 7,05,000
Monthly Expenditure …………………………………………..	Rs. 30,000
Estimated opening stock of raw materials ……………………	Rs. 1,40,000
Estimated closing stock of raw materials………………………	Rs. 1,25,000

Inventory Norms:

Raw Materials, 2 months; Work-in-process, ½ month, and Finished goods, 1 month. The firm enjoys a credit of half a month on its purchases and allows one month credit on its supplies. On sales orders, the company receives an advance of Rs. 15,000. You may assume that production is carried out evenly throughout the year and minimum cash balance desired to be maintained is Rs. 35,000.

(b) Using Miller and Orr model for cash management, determine Return Point, Upper Limit and Average Cash Balance for Bdfh Ltd. (6)

Minimum Cash Balance Desired ……………………………	Rs. 2,50,000
Standard Deviation of daily cash flows……………………..	Rs. 15,000
Transaction cost of effecting securities transaction……….	Rs. 2000
Opportunity cost of funds……………………………………..	12% p.a.

Number of working days in a year are 360.

Q. 2 (a) Select correct answer for each of the following questions. (6)

1. The financial manager of a company calculated the Estimated Working Capital after adding 10% safety margin to NWC as Rs. 12,10,000. What is the safety margin?
   a. Rs. 10,00,000 b. Rs. 1,10,000 c. Rs. 1,00,000 d. Rs. 2,10,000

2. Which of the following model is known as stochastic model for cash management?
   a. Miller and Orr Model b. Baumol Model c. Orgler Model d. None

3. An increase in DSO over previous quarter means:
   a. Average Daily Sales has increased
   b. Average Collection Period has decreased
   c. Average Payables Duration has increased
   d. Average Collection Period has increase

4. The costs associated with EOQ are:
   a. Ordering Costs   b. Carrying Costs   c. Both   d. None

5. If credit terms of a firm are '2/15 net 45', what is the cost of trade credit?
   a. 24.83%   b. 25%   c. 33.33%   d. 2%

6. Duration required to receive material after placing order is called:
   a. RMCP   b. Lead Time   c. DSO   d. Credit Period

(b) Explain the concepts of Gross and Net operating Cycles with their components and give a diagrammatic representation of the same. (6)

OR

(b) What are the methods of speeding up collections? Give brief explanation of each.

Q. 3 (a) Discuss Baumol Model for determining the Economic Lot Size with its assumptions and limitations. (6)

(b) What are the credit policy variables? How do changes in credit period and cash discount affect various business variables? (6)

OR

Q. 3 (a) Tino Ltd. is requiring Rs. 18,00,000 for coming six months. It has the amount invested in short term securities which can be sold in following denominations: Rs. 2,00,000; Rs. 2,50,000; Rs. 3,00,000; Rs. 4,00,000 and Rs. 6,00,000. The cost per transaction is Rs. 1500 and the cost of capital is 12% p.a. What is the optimum conversion lot from the above mentioned lots? (6)

(b) The present sales of β Company are Rs. 25,00,000 and the average collection period is 45 days. The company is considering adoption of more liberal credit policy under which credit period will be extended to 60 days. As a result of this policy, the sales of the company will rise by Rs. 3,00,000. The company has variable cost ratio of 80% and post tax cost of capital of 12%. The additional sales will also carry bad debt loss of 8%. The tax rate applicable to the company is 35%. Evaluate the effect of changing credit period on net profit of the company and advise whether to adopt new policy or not.

Q. 4 (a) How do you establish reorder level under different situations? Illustrate your answer with appropriate examples. (6)

(b) Explain ABC analysis of inventory management with the help of a diagram. How does Just – in – time system work? (6)

OR

Q. 4 (a) What is traditional credit analysis? What are sources of information for that? Show how does the logic of traditional credit analysis work?. (6)

(b) α and company buys and uses a component for production at Rs. 10 per unit. The requirement is 2000 units. Carrying cost of inventory is 10% per annum, and ordering cost is Rs. 40 per order. The purchase manager argues that the ordering cost is high so it is advantageous to place a single order for the entire annual requirement. He also says that if the order is 2000 units at a time, there is a discount of 3% from the supplier. Evaluate the proposal and make your recommendation. (6)

Q. 5 What are the factors determining working capital requirements? Explain their effects on working capital in brief? (12)

OR

Q 5 Prepare cash budget for Panjarapole Ltd. from following information for the months of April to June 2014. (12)

Estimated sales for January to July are given below:

January	Rs. 25,00,000	May	Rs. 35,00,000
February	Rs. 30,00,000	June	Rs. 40,00,000
March	Rs. 35,00,000	July	Rs. 30,00,000
April	Rs. 30,00,000		

1. Cash sales and credit sales are in the ratio of 1:3. Credit sales are collected in next three months in the ratio of 4:3:3.
2. Purchases are made one month in advance. Total purchase amount to 60% of sales. Cash and credit purchases are in the ratio of 1:4. Credit purchases are paid in next two months in the ratio of 3:2.
3. Wages are 10% of sales. 30% of total wages remain unpaid at the end of the month and they are paid in the next month.
4. Administrative expenses are 5% of sales. 60% of expenses are paid in the same month and rest in the next month.
5. Selling and distribution expenses are 5% of sales and 50% are paid in same month while rest are paid in next month.
6. Commission on sales is 1% of sales which paid in the same month.
7. The company has taken a loan of Rs. 20,00,000 on 1st January 2014. The rate of interest on the loan is 12% p.a. Interest on loan is paid on the last day of the month and the loan in to be repaid equal installments of Rs. 2,00,000 on the last day of each month.
8. Cash balance on 31st March 2014 is Rs. 25,00,000.
