

B.Com. (Semester – VI) Examination, April/May 2019
Major – II : BUSINESS MANAGEMENT
(Financial Management)

Duration : 2 Hours

Max. Marks : 80

- Instructions :** 1) Question No. 1 is compulsory.
 2) Answer **any 3** questions from the rest Q. 2 to Q. 6.
 3) **All** questions carry **equal** marks.
 4) Figures to the **right** indicate marks.
 5) **All** working should form Part of your answer.

1. Write a short note on **any four**. **(4×5=20)**
- Importance of working capital.
 - Types of Dividend.
 - Objectives of cash management.
 - Cost of receivable management.
 - Benefits of holding inventory.
 - Walter's model of dividend theory.
2. a) A proforma cost sheet of ABC Co. Ltd. provides you with the following information. You are required to estimate the working capital needed to finance a level of activity of Rs. 52,000 units of production.

Elements	Cost per Unit
Raw materials	40
Direct labour	15
Overheads	<u>30</u>
Total cost	<u>85</u>
Profit	35
Selling Price	120

**Additional information :**

- 1) Average raw materials in stock : one month
- 2) Average materials in process half a month (assume 100% completion stage for materials and 50% each for wages and overheads)
- 3) Average finished goods in stock : one month
- 4) Credit allowed by suppliers : one month
- 5) Credit allowed to customers : two months
- 6) Time lag in payment of wages : one and half weeks
- 7) Time lag in payment of overheads : one month
- 8) Half of the sales are on cash basis
- 9) Cash balance is expected to be Rs. 20,000.

You may assume that production is carried out evenly throughout the year and wages and overheads accrue similarly (A period of one month is equal to 4 weeks).

- 15**
- b) What are the sources of working capital ? **5**
3. a) Good Luck Enterprises uses 2,400 units of raw materials annually. Cost of raw materials is Rs. 10 per unit. Cost of placing the order is Rs. 37.50 and the carrying cost is 20% per year. Calculate the economic order quantity. **5**
- b) From the following information of Star Company, calculate the Re-order level, Minimum level, Maximum level and the Average Stock Level. **10**
- | | |
|-------------------|-------------------|
| Maximum usage | 4000 units a week |
| Minimum usage | 3000 units a week |
| Normal usage | 3500 units a week |
| Minimum lead time | 3 weeks |
| Maximum lead time | 5 weeks |
| Re-order quantity | 2000 units |
- c) What are the crucial decision areas in receivable management ? **5**



4. a) Prepare a cash budget for the three months December 2018 to February, 2019 based on the following information.

Estimated	November	December	January	February
Cash sales	1,00,000	1,20,000	1,40,000	1,15,000
Credit sales	1,14,000	1,04,000	1,10,000	1,12,000
Purchases	1,80,000	1,60,000	1,80,000	1,90,000
Other expenses	15,000	18,000	20,000	22,000

Additional information :

- 1) Cash in hand on 1st December 2018 is Rs. 30,000.
- 2) Monthly salaries and wages is Rs. 16,000.
- 3) Interest payable in January is Rs. 5,000.
- 4) Credit sales are collected in the month following the sale.
- 5) 10% of the purchases are in cash and the balance is paid in the next month.

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b) Explain the working capital cycle.

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5. a) Explain the factors influencing the dividend policy of a firm.

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b) Discuss the strategies that can be employed to manage cash.

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6. a) Discuss the components of working capital.

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b) Write short notes on :

10

1) Cash budget

2) VED analysis.

Direct labour	15
Overheads	30
Total cost	45
Paid	35
Selling Price	120