



**B.Com. (Semester – VI) Examination, April 2018**  
**BUSINESS MANAGEMENT (Major – 2)**  
**Financial Management**  
**(New Course)**

Duration : 2 Hours

Total Marks : 80

- Instructions :** 1) Q. No. 1 is **compulsory**.  
2) Answer **any 3** questions from Q. 2 to Q. 6.  
3) Figures to the **right** indicate **full** marks.

1. Write short notes on **any four** : (4×5=20)
- Permanent and temporary working capital.
  - Forms of dividends.
  - Factors determining cash needs.
  - Motives for holding cash.
  - Costs associated with receivables management.
  - Benefits of holding inventory.
2. a) From the following details prepare the working capital forecast. Production during the year ending March, 2017 was 1,20,000 units. The expected ratio of cost to selling prices are :
- |               |     |
|---------------|-----|
| Raw materials | 60% |
| Direct wages  | 10% |
| Overheads     | 20% |
- Raw materials are expected to remain in store for an average of 2 months.
  - Each unit is expected to be in process for one month (Raw material 100%, Wages 50% and Overheads 50%).
  - Finished goods will remain in warehouse, approximately 3 months.
  - Credit allowed by creditors is 2 months.
  - Credit allowed to debtors is 3 months. One fourth of the output is sold against cash.

P.T.O.



- vi) Selling price is Rs. 100 per unit.
- vii) Lag in payment of overheads and wages is  $\frac{1}{2}$  month.
- viii) The company normally keeps cash in hand to the extent of Rs. 4,00,000.

The production and sales cycle is regular. Add 10% margin for contingencies.

15

- b) Write a note on components of working capital.

5

3. a) From the following data, determine EOQ :

5

- i) Quarterly consumption, 75,000 units.
- ii) Purchase price, Rs. 3 per unit.
- iii) Ordering cost, Rs. 20 per order.
- iv) Carrying cost of inventory, 25% of cost.

- b) Two components A and B are used as follows :

10

Normal usage, 50 units per week

Minimum usage, 25 units per week

Maximum usage, 75 units per week

Re-order quantity, A : 300 units; B : 500 units

Re-order period, A : 4 to 6 weeks; B : 2 to 4 weeks

Calculate for each component :

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

- c) Write a note on Dividend Payout Ratio.

5

4. a) Prepare a cash budget for three months October – December, 2017 based on the following information :

	September	October	November	December
Cash sales	1,20,000	1,40,000	1,52,000	1,21,000
Credit sales	1,00,000	80,000	1,40,000	1,20,000
Purchases	1,60,000	1,70,000	2,40,000	1,80,000
Other expenses	18,000	20,000	22,000	21,000





**Additional Information :**

- 1) Cash at bank on 1<sup>st</sup> October, 2017 is 35,000.
  - 2) Monthly salaries is Rs. 12,000.
  - 3) Interest payable in November, 2017 is Rs. 7,000.
  - 4) Credit sales are collected 50% in the month of sale and 50% in the month following the sale. Collection from credit sales are subject to 10% discount if received in the month of sale.
  - 5) 10% of the purchases are in cash and balance is paid in the next month. 15
  - b) Explain the concept of working capital cycle. 5
  5. a) Explain the Modigliani and Miller hypothesis on the irrelevance of dividends. What are its basic assumptions ? 10
  - b) Discuss the cash management strategies that can be employed by firms. 10
  6. a) Explain in detail the factors affecting the working capital requirements of a firm. 10
  - b) Write short notes on : 10
    - i) Cash budge : A management tool.
    - ii) ABC analysis.
2. a) From the following details prepare the working capital forecast. Production during the year ending March, 2017 was 1,20,000 units. The expected ratio of cost to selling prices are :
- |               |     |
|---------------|-----|
| Raw materials | 60% |
| Direct wages  | 10% |
| Overheads     | 20% |
- i) Raw materials are expected to remain in store for an average of 2 months.
  - ii) Each unit is expected to be in process for one month (Raw material 100%, Wages 50% and Overheads 50%).
  - iii) Finished goods will remain in warehouse, approximately 3 months.
  - iv) Credit allowed by creditors is 2 months.
  - v) Credit allowed to debtors is 3 months. One fourth of the output is sold against cash.