B.Com. (Semester – VI) (Repeat) (New Course) Examination, October 2016
BUSINESS MANAGEMENT (Major II)
Financial Management

Duration : 2 Hours   Total Marks : 80

Instructions : *1) Q. No. **1** is **compulsory.***
*2) Answer **any three** 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)**

   a) Walter's Model of Dividend.

   b) Objectives of Inventory management.

   c) Motives of holding cash.

   d) Working capital cycle.

   e) Costs associated with receivables management.

   f) Techniques of speedy cash management.

2. a) From the following details prepare working capital requirements forecast. Production during the previous year was 12,000 units. It is planned that this level of activity would be maintained during the present year.

   The expected ratios of the cost to selling prices are

Raw Materials	60%
Direct wages	10%
Overheads	20%.

   Additional Information :

   1) Raw materials are expected to remain in store for an average of 2 months before the issue to production.

   2) Each unit is expected to be in process for one month – (Raw materials 100%, wages 50% and overheads 50%).

   3) Finished goods will stay in the warehouse awaiting despatch to customers for approximately 3 months.

4) Credit allowed by creditors is 2 months.

5) Credit allowed to debtors is 3 months. One fourth of the output is sold against cash. Debtors to be calculated at selling price.

6) Selling price is Rs. 500 per unit.

7) Lag in payment of overheads and wages is $\frac{1}{2}$ month.

8) The company normally keeps cash in hand to the extend of Rs. 4,00,000. There is regular production and sales cycle. Add 10% margin for contingencies. 15

b) Write a note on types of dividend. 5

3. a) From the following, prepare cash budget for the period from March to May 2012 when the opening cash balance was Rs. 40,000.

Month	Sales	Purchases	Selling Expenses	Wages	Factory Exps.	Administrative Exps.
January	3,40,000	1,60,000	14,000	30,000	20,000	10,000
February	3,20,000	1,68,000	15,000	32,000	22,000	11,000
March	5,64,000	1,66,000	13,000	36,000	16,000	9,000
April	3,10,000	1,66,000	13,600	24,000	21,000	9,400
May	3,30,000	1,52,000	14,800	36,000	24,000	10,800

Additional Information :

a) Cash sales are 10% of total sales.

b) Period of credit allowed by suppliers – 1 month.

c) Period of credit allowed to customers – 1 month.

d) Lag in payment of all expenses – 1 month.

e) Machinery purchased for Rs. 1,00,000 in March payable on delivery in April.

f) Building purchased in April Rs. 3,00,000 payable in two equal installments in May and July.

g) Commission of 3% on sales payable two months after sales. 15

b) Explain in brief benefits of holding inventory. 5

4. a) A firm expects a sale of 90,000 units purchased for Rs. 10 per unit. The order cost is Rs. 25 and the firm's carrying costs as percentage of the inventory value has been estimated at 15%. What is the Economic Order Quantity ? **5**

   b) From the following particulars calculate the Re-order level, Maximum stock level, Minimum stock level and Average stock level.

   Normal consumption – 600 units per week.

   Maximum consumption – 840 units per week.

   Minimum consumption – 480 units per week.

   Re-order quantity – 7,200 units.

   Re-order period – 10 to 15 weeks.

   Normal Re-order period – 12 weeks. **10**

   c) Write a note on Modigliani and Miller hypothesis. **5**

5. a) Explain the meaning and forms of dividend. **10**

   b) Write short notes on :

   1) Decision areas of receivable management.

   2) ABC analysis. **10**

6. a) Explain in brief the objectives and factors influencing the size of receivables management. **10**

   b) Write note on :

   1) Sources of working capital.

   2) Strategies of cash management. **10**

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