2020

BUSINESS ADMINISTRATION – HONOURS

Sixteenth Paper

(Financial Management Group)

(Working Capital Management and Project Management)

Full Marks -100

(Time : 2 hrs.)

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Group – A

[Working Capital Management]

(Marks : 50)

Answer ***any two*** questions. 25×2

1. What are the factors that affect the working capital requirement of a company?

2. What are sources of funds for Working Capital?

3. P Ltd. has decided to produce 2,34,000 units in a year. The estimated cost structure is as follows :

Particulars	Cost per unit (₹)
Raw Material	25
Direct Labour	10
Overhead	15
Total Cost	50
Profit	10
Selling Price	60

Additional Information **:**

(i) Raw Material in Stock are on an average for 2 months and in WIP 1 month.

(ii) Finished Goods remain in warehouse for average 1½ months.

(iii) Credit allowed to debtors 2 months.

(iv) Lag in payment of wages ½ month and in overhead 1 month.

(v) The production pattern is assumed to be even during the year.

Estimate the working capital.

4. Babu Ltd. requests you to calculate the net working capital cycle from the following data :

Raw material storage period	:	20 days
Raw material processing period	:	30 days
Finished goods storage period	:	15 days
Debtors payment period	:	30 days
Creditors payment period	:	½ of processing period.

Also compute net working capital requirement if per day requirement is ₹ 12,000.

5. Discuss separately the advantages and disadvantages of operating with very high and very low levels of working capital.

6. (a) What is EOQ?

(b) From the following information find EOQ

Annual usage	8,000 units
Purchase price per unit	₹ 1
Ordering cost per order	₹ 80
Carrying cost	20% p.a. per unit cost.

7. Parameters relating to the present and proposed credit schemes of XYZ Ltd. are as follows :

	Present	**Proposed**
Credit term	1/10 net 30	2/10 net 30
Sales	₹ 8 crores	₹ 8.5 crores
Average collection period	20 days	14 days
Ratio of variable cost to sales	0.85	0.85
Proportion of sales on which customer take discount	0.5	0.8
Cost of capital	10%	10%
Income tax rate	40%	40%

Comment whether the above proposed credit scheme is worthwhile.

8. A company has a steady monthly cash requirement of ₹ 2.5 lakhs which is met by selling marketable securities as and when necessary (each such transaction having a fixed cost of ₹ 150 associated with it). The marketable securities otherwise fetch interest @ 9% per annum.

By applying the Baumol Model, you are required to compute :

(a) optimal transaction size

(b) average cash balance.

9. (a) Explain the concept of 'Operating Cycle'.

(b) What are the motives that a company may have for holding cash balances?

10. Write short notes (***any two***) :

(a) Fixed working capital and variable working capital

(b) Maximum Level and Re-order Level of stock

(c) Importance of Debtors Management

(d) ABC Analysis in Inventory Management.

Group – B

[Project Management]

(Marks : 50)

Answer ***any two*** questions. 25×2

11. What do you mean by project? Explain the different elements of project management.

12. (a) Why does a Capital Expenditure have to be dealt with very carefully by an organization?

(b) What is the relevance of discounting of cash flows in a capital investment decision?

13. (a) What is Net Present Value?

(b) Compute NPV of a project, where, initial investment is ₹ 30,000; Annual cash flow over 5 years life are: ₹ 10,000; ₹ 12,000; ₹ 14,000; ₹ 10,000 and ₹ 5,000 and cost of capital is 10% p.a.

14. (a) What is discounted payback period?

(b) The cost of a project is ₹ 10,000; Life = 5 years; cost of capital = 10% p.a. Net cash flows : ₹ 4,000; ₹ 3,000; ₹ 4,000; ₹ 2,000 and ₹ 3,000. Find Discounted PBP?

15. The following cash flows are envisaged for a project :

(figures in ₹ lakhs.)

Year	1	2	3	4	5
Cash flows in Project-A	40	80	90	100	120
Discounting Factor	0.9	0.8	0.7	0.6	0.5

Initial Investment is ₹ 200 lakhs.

Calculate Net Present Value, Benefit Cost Ratio (i.e. Gross Profitability Index) and Net Benefit Cost Ratio (i.e. Net Profitability Index) for the project and comment on whether the investment is worthwhile or not under each method.

16. (a) Explain the concept of project management under conditions of risk.

(b) What are the challenges in managing global projects?

17. (a) Explain the concept of Capital Rationing.

(b) Make a comparative analysis between Net Present Value Method and internal rate of Return Method of project evaluation.

18. The following information are available in respect of various projects :

Project	**Investment (₹ ’000)**	**NPV (₹ ’000)**
A	1,000	210
B	6,000	1,560
C	5,000	850
D	2,000	260
E	2,500	500
F	500	95

Amount available for investment is ₹ 80 lakhs.

Rank the projects according to Profitability Index and suggest the projects to be chosen.

19. The following post tax cash flows are envisaged for a project :

(figures in ₹ lakhs.)

Year	1	2	3	4	5
Post Tax Cash flows (₹)	35	80	90	75	20

Initial Investment requirement is ₹ 200 lakhs.

Considering discounting rates of 10% and 20% separately, calculate the IRR of the project.

20. Write short notes (***any two***) :

(a) Payback Period

(b) Internal Rate of Return

(c) Sources of Positive NPV

(d) Profitability Index.