Name : ....

Roll No. : ....

Invigilator's Signature : ....

CS/HM/SUPPLE/SEM-5/BHM-504/2010

2010

FINANCIAL MANAGEMENT

Time Allotted : 3 Hours *Full Marks* : 70

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

(Multiple Choice Type Questions)

1. Choose the correct alternatives for any *ten* of the following : 10 × 1 = 10

   i) Net Present Value method and Profitability Index method are

      a) Traditional techniques

      b) Discounted cash flow techniques

      c) None of these.

   ii) If Net Present Value is greater than zero then the project should be

      a) Considered

      b) Accepted

      c) Rejected.

iii) Under net concept of working capital, negative working capital means

a) current liabilities is greater than current assets

b) current assets is greater than current liabilities

c) current assets is equal to current liabilities.

iv) Standard liquid ratio is considered to be

a) 2 : 1 b) 1 : 1

c) 2 : 3 d) 0·5 : 1

v) If production increases variable cost will

a) remain constant on a per unit basis

b) vary on a per unit basis.

c) vary inversely

d) remain unchanged.

vi) While preparing cash flow statement, sale of Plant & Machinery will fall under

a) operating activities

b) investing activities

c) financing activities.

vii) The standard Proprietary ratio is considered as

a) 2 : 1 b) 1 : 1

c) 0·75 : 1 d) 0·5 : 1

viii) At break-even point

a) Total sales = Total fixed cost

b) Total sales = Total variable cost

c) Total sales = Total cost

d) None of these.

ix) As per fund flow statement, purchase of Furniture is

a) sources of fund

b) application of fund

c) none of these.

x) To test the solvency of a concern which of the following ratios is useful ?

a) Debt-equity ratio

b) Liquid ratio

c) Inventory turnover ratio

d) None of these.

xi) Which of the following is not a source of short term finance ?

a) Trade credit

b) Bank loan

c) Public deposits

d) Right issue of equity shares.

xii) Depreciation is

a) Non-cash expenses

b) Cash expenses

c) None of these.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. $3 \times 5 = 15$

2. Explain in brief the advantages of fund flow statement.

3. Explain 3 merits & 3 demerits of Internal Rate of Return (IRR) method in capital budgeting.

4. Explain in brief the differences between cash flow statement and fund flow statement.

5. From the following particulars, calculate average collection period in days :

i)	Total gross sales (including cash sales of Rs. 20,000)	Rs. 1,00,000
ii)	Sales returns	Rs. 7,000
iii)	Closing Debtors	Rs. 9,000
iv)	Closing Bills receivable	Rs. 2,000

6. What are the limitations of Ratio analysis ?

7. What do you mean by classification of working capital ?

GROUP – C
(Long Answer Type Questions)

Answer any *three* of the following. $3 \times 15 = 45$

8. *R* Corporation Ltd has prepared the following budget estimates for the year 2008 – 2009 :

Sales units	–	15,000
Fixed expenses	–	Rs. 34,000
Sales value	–	Rs. 1,50,000

Variable cost is Rs. 6 per unit.

You are required to —

i) Find P/V ratio, Break-even point and Margin of safety.

ii) Calculate revised P/V ratio, Break-even point and Margin of safety in each of the following cases :

a) Decrease of 10% in selling price

b) Increase of 10% in variable cost

c) increase of sales volume by 2000 units

d) increase of Rs.6,000 in fixed cost.

9. *A* Co. is considering an investment proposal to install a new machine. The project will cost Rs. 50,000 and will have life of 5 years and no salvage value. Tax rate is 50 per cent. The company follows straight line method of depreciation. The cash flows before depreciation and tax (CFBDT) are as follows :

Year	**1**	**2**	**3**	**4**	**5**
CFBDT	Rs. 10,000	Rs. 11,000	Rs. 14,000	Rs. 15,000	Rs. 25,000

Compute the following :

a) Payback period. 3

b) Average rate of return (ARR). 3

c) Net present value at 10% discount rate. 6

d) Profitability Index at 10% discount rate. 3

10. Raj Co. is considering the purchase of one of the following machines whose relevant data is follows

Particulars	**Machine *X***	**Machine *Y***
Estimated life (years)	3	3
Capital cost	Rs. 90,000	Rs. 90,000
Earnings after tax		
1	Rs. 40,000	Rs. 20,000
2	Rs. 50,000	Rs. 70,000
3	Rs. 40,000	Rs. 50,000

The Co. follows the straight line method of depreciation, the estimated salvage value of both the machines is zero, Assume 10% cost of capital

Show the most profitable investment based on —

a) Payback period 4

b) Net present value 7

c) Profitability index. 4

11. *ABC* Ltd. provides the following information :

Elements of costs	**Amount per unit (Rs.)**
Raw materials	80
Direct labour	30
Overheads	60
Profit	30
Selling Price	**200**

The following further particulars are available :

i) Raw materials are in stock = 1 month

ii) Material are in process on an average = $\frac{1}{2}$ month

iii) Finished goods are in stock on an average = 1 month

iv) Credit allowed by supplier = 1 month

v) Credit allowed to customer = 2 months

vi) Lag in payment wages = $1\frac{1}{2}$ weeks

vii) Lag in payment of overheads = 1 month

viii) $\frac{1}{4}$th of output is sold against cash.

ix) Cash in hand is expected to be Rs. 25,000

x) Level of activity = 1,04,000 units.

You are required to prepare a statement showing the working capital requirement.

12. State in brief the following ratios : $6 \times 2\frac{1}{2} = 15$

a) Current ratio

b) Liquid ratio

c) Stock turnover ratio

d) Debtor's turnover ratio

e) Price earning ratio

f) Return of capital employed.

13. While preparing cash flow statement how do you classify the following for non-financial institution under cash flows from
    a) Operating activities
    b) Investing activities
    c) Financing activities ?
        i) Cash receipt from the sale of goods
        ii) Cash receipt from disposal of Land & Building
        iii) Cash payment to suppliers of goods
        iv) Cash paid to acquire Plant & Machinery
        v) Cash paid to employees as salaries & wages
        vi) Cash proceeds from issues of shares
        vii) Dividend paid to shareholders
        viii) Interest paid on debentures
        ix) Interest received on investments
        x) Payment of income tax
        xi) Cash paid on redemption of debentures
        xii) Cash received from disposal of investment
        xiii) Loss on sale of equipment
        xiv) Depreciation
        xv) Purchase of fixed assets in exchange of preference shares.

14. The summarized balance sheets of *XYZ* Ltd. as 31. 03. 07 and 31. 03. 08 are given below :

Liabilities	**2007 Rs.**	**2008 Rs.**	**Assets**	**2007**	**2008**
Share capital	450000	450000	Fixed assets	400000	400000
General reverse	300000	310000	Investments	50000	60000
Profit & Loss A/c.	56000	68000	Stock	240000	210000
Creditor	168000	134000	Debtors	210000	455000
Provision for taxation	75000	10000	Bank	149000	117000
Mortgage loan	—	270000			
	1049000	1242000		1049000	1242000

Additional information :

i) Investment costing Rs. 8,000 were sold during the year 2008 for Rs. 8,500

ii) Provision for tax made during the year Rs. 9,000

iii) During the year part of the fixed assets costing Rs. 10,000 was sold for Rs. 12,000 and the profit was included in the Profit & Loss account.

iv) Dividend paid during the year amounted to Rs. 40,000.

You are required to prepare —

i) a statement showing changes in working capital.

ii) a statement of sources and applications of funds.

15. From the following information compute the following :

$5 \times 3 = 15$

a) Current ratio

b) Liquid ratio

c) Proprietary ratio

d) Debt equity ratio

e) Capital gearing ratio.

Balance sheet as at 31. 12. 08

Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Equity share capital	2,00,000	Plant & Machinery	2,00,000
6% Preference share capital	1,00,000	Land & building	2,00,000
Reserve & surplus	1,00,000	Stock	1,50,000
8% Debentures	1,00,000	Debtors	50,000
Long term loans	50,000	Cash & Bank	1,00,000
Creditors	1,00,000		
Bank overdraft	50,000		
Total	7,00,000	Total	7,00,000