



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 :  $10 \times 1 = 10$
- 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.



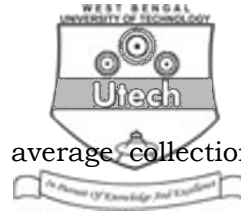
- ix) As per fund flow statement, purchase of Furniture is
- a) sources of fund
  - b) application of fund
  - c) none of these.
- x) To test the solvency of a concern which of the following ratios is useful ?
- a) Debt-equity ratio
  - b) Liquid ratio
  - c) Inventory turnover ratio
  - d) None of these.
- 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<br>( 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 —
- Find P/V ratio, Break-even point and Margin of safety.
  - Calculate revised P/V ratio, Break-even point and Margin of safety in each of the following cases :
    - Decrease of 10% in selling price
    - Increase of 10% in variable cost
    - increase of sales volume by 2000 units
    - 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 :

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

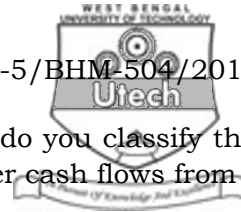
The following further particulars are available :

- 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 :

<b>Liabilities</b>	<b>2007 Rs.</b>	<b>2008 Rs.</b>	<b>Assets</b>	<b>2007</b>	<b>2008</b>
Share capital	450000	450000	Fixed assets	400000	400000
General reserve	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**

<b>Liabilities</b>	<b>Amount ( Rs. )</b>	<b>Assets</b>	<b>Amount ( Rs. )</b>
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		
<b>Total</b>	<b>7,00,000</b>	<b>Total</b>	<b>7,00,000</b>