Name : ....
Roll No. : ....
Invigilator's Signature : ....

CS/HM/ SEP.SUPPLE/SEM-5/BHM-504/2012

2012

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) The excess of selling price over variable costs is known as

a) Profit

b) Fixed cost

c) Contribution

d) Marginal return on selling price.

ii) .... is a test of efficient inventory management.

a) Debtor's turnover ratio

b) Stock turnover ratio

c) Gross profit ratio

d) Net profit ratio.

iii) Gross profit ratio is 25%, gross profit is Rs. 4,00,000. Sales is

a) Rs. 6,00,000 b) Rs. 60,000

c) Rs. 16,00,000 d) Rs. 16,000.

iv) Capital budgeting refers to the

a) demand and supply of capital

b) managerial technique of planning capital expenditures of the company

c) overall cost of capital

d) raising of capital.

v) The pay back period shows

a) the time value of money

b) the cash outflows

c) recovery period of original investment outlay

d) the budgeted cost.

vi) Which of the following is not a function of financial management in the modern sense of the term ?

a) Decisions related to funds requirements

b) Decisions on Legal, Ethical and Regulatory Matters

c) Investment and Financial Decision

d) Dividend Policy Decisions.

vii) Capital Budgeting Process involves

a) Project Execution and Monitoring

b) Projet Screening and Selection

c) Project Generation and Evaluation

d) All of these.

viii) IRR is the rate of interest at which NPV of a project is equal to

a) Positive value

b) Negative value

c) Zero

d) It can take any value.

ix) Inventory Turnover Ratio is calculated as

a) $\frac{\text{Cost of Goods Sold}}{\text{Sales}}$

b) $\frac{\text{Cost of Goods Sold}}{\text{Average Stock}}$

c) $\frac{\text{Cost of Goods Sold}}{\text{Debtors}}$

d) $\frac{\text{Sales}}{\text{Debtors}}$.

x) A project may be accepted when

a) NPV < 0 b) NVP > 0

c) NPV = 0 d) None of these.

xi) Liquid assets are equal to

a) Value of all curect assets

b) Sum of cash and bank balance

c) Current assets less inventories and prepaid exp.

d) Sundry debtors.

xii) If opening stock is Rs. 10,000, closing stock is Rs. 11,000, purchases are Rs. 70,000 and goods sold @30% on cost, then the amount of sales will be

a) Rs. 86,000 b) Rs. 89,700

c) Rs. 21,000 d) Rs. 91,000.

GROUP – B

(Short Answer Type Questions)

Answer any *three* of the following. 3 × 5 = 15

2. "Depreciation is a source of fund." Explain the statement.
3. Differentiate between fund flow and income statement.
4. Define Capital Budgeting. Explain the importance of Capital Budgeting in taking long term decision.
5. Define Ratio Analysis. Discuss the limitations of Ratio Analysis.
6. The ratios relating to Hospital Ltd. Are given as follows :

Gross profit ratio	25%
Stock velocity	6 months
Debtors velocity	3 months
Creditors velocity	3 months

Gross profit for the year ending 2010 amounts to Rs. 60,000.

Find out :

a) Sales

b) Closing Stock

c) Sundry Debtors

d) Sundry Creditors.

GROUP – C

(Long Answer Type Questions)

Answer any *three* of the following. 3 × 15 = 45

7. a) Briefly describe the application of CVP (Cost-Volume-Profit) analysis in various situations.

   b) Briefly explain the important roles played by the finance manager of an organization.

c) Discuss about the characteristic features of preference shares as a source of long-term funds. 4 + 6 + 5

8. Pioneer Steel Ltd. has forecasted a sales level of 1,20,000 units for the next year. The components of cost of goods sold are given below :

	Unit Cost
Raw material	Rs. 50.00
Manufacturing expenses	Rs. 20.00
Selling, administration and financial expenses	Rs. 10.00
Total	**Rs. 80.00**

The selling price per unit is Rs. 100.

The number of units sold per month will be uniform over the next year. The company wants to maintain a minimum cash balance of Rs. 6,00,000. Manufacturing expenses will be incured evenly.

The durations at various stages of the operating cycle are given below :

Raw materials stage	—	3 months
Work-in-process stage	—	1 month
Finished goods stage	—	1 month
Receivables stage	—	2 months

Estimate the working capital requirements of the company.

9. The balance sheets of Orient Drugs Ltd. as on March 31, 2011 and March 31, 2012 are given below : (Rs. in crore)

Balance Sheet	**As on March 31, 2011**	**As on March 31, 2012**
Sources of Funds		
Paid up equity share capital	130	130
Reserves and surplus	284	340
Term loan	557	602
Total	**971**	**1072**
Application of funds		
Fixed assets :		
Gross block	800	886
Accumulated depreciation	(172)	(211)
Net block	628	675
Capital work-in-progres	12	30
Net fixed assets	640	705
Long term investments	7	12
	647	717
Current assets :		
Inventories	237	300
Sundry debtors	300	340
Cash and bank	29	20
Current liabilities and provisions :		
Sundry creditors	(205)	(265)
Provisions	(40)	(45)
Net current assets	321	350
Miscellaneous expenditures	3	5
	324	355
Total	**971**	**1072**

The net profit of the company for the year ended March 31, 2012 was Rs. 78 crore and the dividends paid by the company amounted to Rs. 22 crore.

You are required to prepare,

a) A statement of sources and uses of working capital during the year.

b) A schedule showing the changes in the internal contents of working capital. 9 + 6

10. a) Define " Internal Rate of Return" of a project.

b) Health Ltd. is considering an investment project involving a capital outlay of Rs. 2,00,000. Expected annual income after depreciation but before tax during the life of the project are as under :

Year	**Rs.**
1	1,00,000
2	1,20,000
3	80,000
4	60,000
5	40,000

Depreciation is 20% on original cost and taxtion at 50% of net income. Evaluate the project according to each of the following methods :

(i) Average Rate of Return

(ii) Net Present Value

(iii) Profitability Index. 3 + 12

11. The summarized Balance Sheets of Speciality Clinic as at 31 March, 2011 and 31 March, 2012 are given below :

Liabilitis	**2011**	**2012**	**Assets**	**2011**	**2012**
Share Capital	8,00,000	10,00,000	Machinery	5,00,000	7,00,000
Reserve	1,50,000	2,00,000	Building	4,00,000	6,00,000
Profit and Loss A/c	60,000	1,00,000	Investment	---	1,00,000
Loan	1,00,000	4,00,000	Debtors	7,00,000	5,00,000
Tax Provision	70,000	1,00,000	Stock	2,00,000	4,00,000
Creditors	8,20,000	7,00,000	Cash & Bank	2,00,000	2,00,000
	20,00,000	25,00,000		20,00,000	25,00,000

Additional Information :

(i) Building is still under construction and no depreciation was charged.

(ii) Depreciation was charged at 25% on the opening value of machinery

(iii) An old machine costing Rs. 50,000 was sold for Rs. 35,000 (W-D-V Rs. 20,000)

(iv) Income Tax paid during the year Rs. 50,000

Prepare a Funds Flow Statement.

12. Write short notes on any *three* of the following : 3 × 5

a) Types of financial statement

b) Financial Functions

c) Liquidity Ratio

d) Short term finance

e) Break-even Point.