

Name :

Roll No. :

Invigilator's Signature :

CS/BHSM/SEM-5/HPM-506/2011-12

2011

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) In break-even analysis the contribution margin is defined as
 - a) sales minus variable costs
 - b) sales minus fixed costs
 - c) variable costs minus fixed costs
 - d) fixed costs minus variable costs.
- ii) What is the primary goal of financial management ?
 - a) Increased earnings
 - b) Maximizing cash flow
 - c) Maximizing shareholder wealth
 - d) Minimizing risk of the firm.



iii) To financial analysts, "working capital" means the same thing as

- a) total assets
- b) fixed assets
- c) current assets
- d) current assets minus current liabilities.

iv) Which of the following are not monetary assets ?

- a) Plant and Machinery
- b) Inventory
- c) Debtors
- d) Efficiency.

v) Cost of goods sold refers to

- a) sales minus gross profit
- b) total cost
- c) selling price
- d) opening stock plus purchases minus closing stock.

vi) At IRR, the NPV is

- | | |
|-------------------|-------------------|
| a) Fixed/constant | b) Less than zero |
| c) More than zero | d) Zero. |



vii) Which of the following is not a part of Current Asset ?

- a) Creditors
- b) Bills payable
- c) Bank O/D
- d) Stock in trade.

viii) Financial structure means

- a) Capital structure + C/L
- b) C/A + C/L
- c) Summation of C/L
- d) Fixed Assets + Current Assets.

ix) Acid test ratio also known as

- a) Quick ratio
- b) Near money ratio
- c) Liquidity ratio
- d) All of these.



x) What is the formula of contribution ?

- a) $\text{Sales} \propto \text{P/V ratio}$ b) $\text{Sales} \propto \text{Fixed cost}$
c) $1/\text{PV ratio}$ d) None of these.

xi) When value of profitability index is greater than 1

- a) Project will be accepted
b) Project will be rejected
c) $\text{PV} < \text{C}$
d) $\text{NPV} < 0$.

GROUP – B

(Short Answer Type Questions)

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

2. State the importance of ratio Analysis in Financial Management.
3. Explain the concepts of Networking capital and Gross working capital.
4. State the uses of Funds flow statement as a tool in Financial Management.
5. "Though financial statement analysis is very important for managerial decision making, it has some limitations". Elaborate this statement.
6. State the advantages of cost control measures in an organization.
7. State the factors that determine the capital structure of a company.

**GROUP – C****(Long Answer Type Questions)**Answer any *three* of the following.

3 × 15 = 45

8. a) What is Fund Flow statement ?
- b) The following are the summarized Balance Sheets of Sonam Ltd. as on 31st December, 2010 and 2011 :

<i>Liabilities</i>	<i>31.12.2010</i>	<i>31.12.2011</i>	<i>Assets</i>	<i>31.12.2010</i>	<i>31.12.2011</i>
Equity Share	4,80,000	60,000	Goodwill	40,000	30,000
12% Redeemable Pref. Share	1,00,000	1,50,000	Plant and Machinery	5,60,000	6,20,000
Capital					
General	14,000	46,000	Furniture	40,000	55,000
Profit & Loss	36,000	68,000	Investment (long-term)	2,00,000	2,75,000
15% Debentures	2,00,000	1,40,000	Stock-in-trade	1,20,000	90,000
Sundry	80,000	1,15,000	Sundry Debtors	60,000	90,000
Bank Overdraft	40,000	25,000	Bills Receivable	10,000	65,000
Bills Payable	15,000	26,000	Prepaid Expenses	4,500	6,000
Provision for	35,000	45,000	Bank Balance	3,500	38,000
Proposed dividend	48,000	60,000	Preliminary Expenses	10,000	6,000
	10,48,000	12,75,000		10,48,000	12,75,000

Depreciation of Rs. 50,000 and Rs. 8,000 on Plant and machinery and Furniture were charged respectively on 31.12.2011.

Prepare a Fund Flow Statement after finding out the changes in the net working capital of the company.



9. From the following balance sheet of XYZ Co. Ltd. compute :

- Working Capital
- Net Capital Employed
- Current ratio
- Acid Test Ratio
- Debt Equity Ratio
- Fixed Assets ratio.

Balance Sheet as on 31 December, 2011

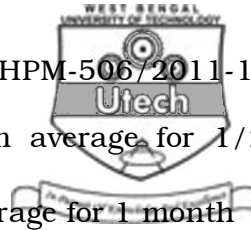
Liabilities	Rs.	Assets	Rs.
Equity Share Capital	50,000	Fixed Assets	60,000
8% Preference Share	10,000	Stock	8,000
General Reserve	6,000	Sundry Debtors	2,000
Profit & Loss A/c	2,000	Bills Receivable	4,000
10% Debenture	16,000	Bank	5,000
Bank Loan (Long-term)	8,000	Prepaid Expenses	1,000
Sundry Creditors	2,000	Preliminary Expenses	16,000
Proposed Dividend	2,000	Brokerage on shares	4,000
Provision for Taxation	4,000		
	1,00,000		1,00,000

10. A proforma cost sheet of a company provides the following particulars :

Elements of cost	Amount per unit (Rs.)
Raw Material	8
Direct Labour	3
Overheads	6
Total Cost	17
Profit	3
Selling Price	20

The following further particulars are available :

- Raw materials are in stock on an average for 1 month



- ii) Raw materials are in process on an average for 1/2 month
- iii) Finished goods are in stock on an average for 1 month
- iv) Credit allowed to customers is 2 months
- v) Credit allowed by suppliers is 1 month
- vi) Lag in payments of Wages is 2 weeks and of overhead expenses is 1 month.
- vii) 1/4 of output is sold against cash
- viii) Cash in hand and at bank is expected to be Rs. 5,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of productions.

You may assume that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

11. An enterprise is considering to take up a project at the beginning of 2011. Assuming required rate of return of 10% per annum, evaluate the investment proposal as under :
- a) Average rate of return
 - b) Pay back period
 - c) Net present value
 - d) Profitability index.

The forecast particulars are given below :

Cost of investment	Rs. 20,00,000
Life	4 years
Scrap value	Nil

Net income (after depreciation and tax)	Rs.
End of 2011	1,58,000
End of 2012	4,62,000
End of 2013	8,52,000
End of 2014	8,41,000



It is estimated that the project will require an additional capital of Rs. 20,000 which will be received back in full after the expiry of project life. Depreciation is provided under the straight line method. The present value of Re. 1 to be received at the end of each year, at 10% per annum is given below :

Year	1	2	3	4	5
Provision	0.91	0.83	0.75	0.68	0.62

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

- a) Du-Port Analysis
 - b) Over and under capitalization
 - c) Provision for taxation
 - d) Point of indifference
 - e) Work-in-progress
 - f) Capital and revenue expenditure.
-