

Name : .....

Roll No. : .....

Invigilator's Signature : .....

**CS/MMA/SEM-1/MMA-110/2009-10  
2009**

**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 main goal of the firm should be
  - a) maximizing gross profit
  - b) wealth maximization
  - c) maximizing profit after taxes
  - d) sales maximization.
- ii) A company has projected sales of Rs. 50,00,000 for the next year. Fixed costs are Rs. 20 lakhs and variable costs are 40% of sales. The cost of goods sold will be
  - a) Rs. 20,00,000                      b) Rs. 30,00,000
  - c) Rs. 40,00,000                      d) Rs. 50,00,000.



- iii) Which of the following would not lead to an increase in net cash flow ?
- a) Larger sales volume
  - b) Lower depreciation charge
  - c) Reduced costs
  - d) Higher selling price.
- iv) Consider the following data for the month of May :  
Opening stock 12,000 units ; closing stock 8,000 units  
and sales 15,000 units. Based on the data, production in May will have to be
- a) 5,000 units                      b) 15,000 units
  - c) 11,000 units                    d) 19,000 units.
- v) Advantages of maintaining cash budgets would not include which one of the following ?
- a) debtors can be paid more quickly
  - b) time is available to investigate more sources of finance
  - c) surplus cash can be put to more productive use
  - d) overdrafts can be negotiated in advance of when they are needed.
- vi) If the current ratio of a two-wheeler manufacturing company is 0.69, which among the following statement is correct ?
- a) The company has high debt coverage
  - b) The company has a negative leverage
  - c) The company is managing with negative working capital
  - d) The company has no cash balance.



- vii) Dividends received by financial enterprise is shown in the Cash Flow Statement under
- Operating activities
  - Investing activities
  - Financing activities
  - Capital adequacy activities.
- viii) How should the revaluation of a fixed asset be included in a Cash Flow Statement ?
- Operating activities
  - Investing activities
  - Financing activities
  - Not shown at all.
- ix) The basis for deciding upon the priority of products in a product-mix decision, if maximum sales ( in value ) is the limiting factor, is called
- contribution per unit
  - P/V ratio
  - Margin of safety
  - BEP.
- x) If the net cost of buying is more than the marginal cost of making the component, the company will
- make the item
  - buy the item
  - take the item on rent
  - outsource it through a subsidiary.



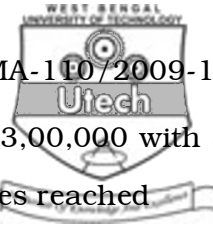
- xi) Direct material is a
- a) fixed cost
  - b) variable cost
  - c) semi-variable cost
  - d) none of these.
- xii) A company having a debt-equity ratio of 11 : 1 and having a huge investment in fixed cost is earning a ROCE of 84%. What can we conclude from these information ?
- a) The company has negative cash flow
  - b) The company has negative debt service coverage ratio
  - c) The company has high financial leverage
  - d) The company has high degree of combined leverage.

**GROUP – B**

**( Short Answer Type Questions )**

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

2. An investor is 48 years old today. He will retire at the age of 60. In order to receive Rs. 3 lakhs per annum for 10 years after retirement, how much amount should he have at the time of retirement. Assume rate of return is 12%.
3. A person desirous of owning a house in seven years requires Rs. 3,00,000 at the beginning of each year from 2017 to 2018. How much should be deposit at the end of each year from 2010 to 2015 ? The rate of interest is 11%.



4. The sales of a company in a month were Rs. 3,00,000 with a profit of Rs. 8,000. In the next month, the sales reached Rs. 3,80,000 with a profit margin of Rs. 24,000. Calculate the break-even point and the P/V ratio.
5. Explain how Cash Flow Statements are prepared as per AS-3.
6. Distinguish between Marginal and Absorption Costing Systems. How are the profits reconciled amongst the two systems ?

### GROUP – C

#### ( Long Answer Type Questions )

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

7. What do you mean by Zero Based Budgeting ( ZBB ) ? How are the 'decision packages' decided in ZBB ? State with reasons the drawbacks of the ZBB.  $7 + 3 + 5$
8. a) How is the break-even point calculated in a multiproduct firm like Monginis a Bisk-Firm ?  
 b) What managerial decisions are taken from the break-even analysis ? Elucidate with proper examples.  $7 + 8$
9. a) What is Debt Service Coverage Ratio ?  
 b) Opening stock Rs. 29,000 ; Closing stock Rs. 31,000 ; Sales Rs. 3,00,000 ; Gross Profit @25% on cost. Calculate stock turnover ratio.

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- c) The following is the Balance Sheet of Prashant Ltd., as on 31st March 2009 :

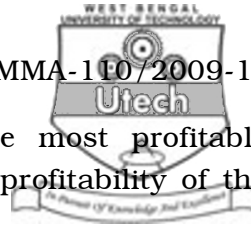


| <b>Liabilities</b>    | <b>Amount<br/>Rs.</b> | <b>Assets</b>     | <b>Amount<br/>Rs.</b> |
|-----------------------|-----------------------|-------------------|-----------------------|
| Share Capital         | 4,00,000              | Land & Building   | 4,00,000              |
| 10% Preference shares | 1,50,000              | Plant & Machinery | 2,00,000              |
| Share Premium         | 1,00,000              | Furniture and     |                       |
| 12% Debenture         | 3,00,000              | Fixture           | 1,00,000              |
| Sundry creditors      | 80,000                | Investments       | 1,00,000              |
| Bank Overdraft        | 50,000                | Debtors           | 50,000                |
| Bills payable         | 20,000                | Bill Receivable   | 10,000                |
| Outstanding wages     | 10,000                | Cash at Bank      | 1,00,000              |
|                       | <u>11,10,000</u>      |                   | <u>11,10,000</u>      |

From the above information, you are required to compute the following ratios :

- Current ratio
- Acid Test / Quick Ratio
- Debtors Turnover Ratio
- Creditors Turnover Ratio.

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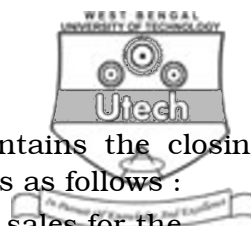
10. From the following particulars, find the most profitable product-mix and prepare a statement of profitability of the product-mix :

|  | <b>Product A</b> | <b>Product B</b> | <b>Product C</b> |
|--|------------------|------------------|------------------|
| Units budgeted to be produced and sold | 1,800            | 3,000            | 1,200            |
| Selling price per unit (in Rs.)        | 60               | 55               | 50               |
| <b>Requirements per unit :</b>         |                  |                  |                  |
| Direct Material                        | 5 kg             | 3 kg             | 4 kg             |
| Direct Labour                          | 4 hrs            | 3 hrs            | 2 hrs            |
| Variable overheads                     | Rs. 7            | Rs. 13           | Rs. 8            |
| Fixed overheads                        | Rs. 10           | Rs. 10           | Rs. 10           |
| Cost of direct materials               |                  |                  |                  |
| per kg.                                | Rs. 4            | Rs. 4            | Rs. 4            |
| Direct labour hour rate                | Rs. 2            | Rs. 2            | Rs. 2            |
| Maximum possible units                 |                  |                  |                  |
| of sales                               | 4,000            | 5,000            | 1,500            |

All the three products are produced from the same type of machines and labour. Direct labour, which is the key factor, is limited to 18,600 hours. 15

11. The following are the estimated sales of a company for eight months ending 30.08.2009 :

| Months   | Estimated sales<br>(units) | Months | Estimated sales<br>(units) |
|----------|----------------------------|--------|----------------------------|
| January  | 12,000                     | May    | 10,000                     |
| February | 13,000                     | June   | 12,000                     |
| March    | 9,000                      | July   | 14,000                     |
| April    | 8,000                      | August | 12,000                     |



As a matter of policy, the company maintains the closing balance of finished goods and raw materials as follows :

|                |   |
|----------------|---|
| Finished goods | 40% of the estimated sales for the next month       |
| Raw materials  | 80% of the estimated consumption for the next month |

Every unit of production needs 4 kg of raw material X and 6 kg of raw material Y. The cost per kg of X is Rs. 20 and that of Y is Rs. 45. Prepare

- Production budget ( in units )
- Raw material purchase budget ( in units and cost ) for the half year ending 30th June, 2010. 15

12. From the following Balance Sheet, prepare the fund flow statement :

| <b>Liabilities</b> | <b>2007</b> | <b>2008</b> | <b>Assets</b>        | <b>2007</b> | <b>2008</b> |
|--------------------|-------------|-------------|----------------------|-------------|-------------|
| Share capital      | 6,00,000    | 7,40,000    | Fixed assets         | 15,60,000   | 14,80,000   |
| 12% Debentures     | 8,80,000    | 8,80,000    | Investments          | 40,000      | 36,000      |
| Creditors          | 10,00,000   | 10,30,000   | Inventory            | 6,00,000    | 6,96,000    |
| General Reserve    | 6,30,000    | 7,80,000    | Debtors              | 4,00,000    | 7,40,000    |
| P & L a/c          | —           | 1,10,000    | Cash                 | 6,00,000    | 7,66,000    |
| Bills Payable      | 2,00,000    | 2,50,000    | Preliminary Expenses | 80,000      | 72,000      |
|                    |             |             | P & L a/c.           | 30,000      | —           |
|                    | 33,10,000   | 37,90,000   |                      | 33,10,000   | 37,90,000   |

Additional information :

- A machine of the book value of Rs. 80,000 was sold for Rs. 72,000
- Depreciation charged on fixed assets was Rs. 1,45,000
- Dividend paid during the year amounted to Rs. 80,000
- Investments amounting to Rs. 10,000 were sold at a profit of 40%. 15