Name : ....

Roll No. : ....

Invigilator's Signature : ....

CS/MMA/SEM-1/MMA-110/2012-13

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 : $10 \times 1 = 10$

i) Cash is a part of which of the following ?

a) Credit management

b) Working capital management

c) Goodwill

d) None of these.

ii) Ratios can be presented in the form of

a) proportion b) percentage

c) whole numbers d) all of these.

iii) Master, functional and flexible are types of what ?

a) Accounts b) Budgets

c) Stocks d) System.

iv) The principle of value additivity is associated with what ?

a) Assets b) Liabilities

c) Annuities d) Expenses.

v) In 3 years you are to receive Rs. 5,000. If the interest rate were to suddenly increase, the present value of that future amount to you would

a) fall

b) rise

c) remain unchanged

d) cannot be determined without more information.

vi) Assume that the interest rate is greater than zero. Which of the following cash-inflow streams should you prefer ?

	***Year* 1**	***Year* 2**	***Year* 3**	***Year* 4**
a)	400	300	200	100
b)	100	200	300	400
c)	250	250	250	250

d) any of the above, since the each sums to 1,000,

vii) To increase a given present value, the discount rate should be adjusted

a) upward b) downward

c) true d) fred.

viii) When $n = 1$, this interest factor equals one for any positive rate of interest ?

a) PVIF b) FVIF

c) PVIFA d) FVIFA.

ix) $(1 + i)^n$ is

a) PVIF b) FVIF

c) PVIFA d) FVIFA.

x) If C_n stands for the value of the cash flow after n periods (years), r for the rate of interest (annual) and n for the number of periods (years), then present value (PV) is given by the formula

a) $PV = C_n . (1 + r) / n$

b) $PV = C_n . (1 + r)^n$

c) $PV = C_n + (1 + r)^n$

d) $PV = C_n / (1 + r)^n$.

xi) Which investment will be characterized by the highest monetary return at the end of the investment horizon ? (Assume annual compounding)

a) 5 years at the interest rate of 5% per year

b) 7 years at the interest rate of 3% per year

c) 4 years at the interest rate of 9% per year

d) 2 years at the interest rate of 6% per year.

xii) Which of the following represents the future value of Rs. 1,000 invested at 10% per annum for 10 years ?

a) Rs. 2,500 b) Rs. 1,913

c) Rs. 2,594 d) Rs. 2,600.

xiii) The purpose of financial markets is to

a) increase the price of common stocks

b) lower the yield on bonds

c) allocate savings efficiently

d) control inflation.

xiv) The long-run objective of financial management is to

a) maximize earnings per share

b) maximize the value of the firm's common stock

c) maximize return on investment

d) maximize market share.

xv) What are the earnings per share (EPS) for a company that earned Rs. 1 million last year in after-tax profits, has 2 million common shares outstanding and Rs. 12 million in retained earning at the year end ?

a) Rs. 1,00,000 b) Rs. 6·00

c) Re. 0·50 d) Rs. 6·50.

xvi) The market price of a share of common stock is determined by

a) the board of directors of the firm

b) the stock exchange on which the stock is listed

c) the president of the company

d) individuals buying and selling the stock.

xvii) Which of the following enjoys limited liability ?

a) A general partnership

b) A corporation

c) A sole proprietorship

d) None of these.

xviii) Given the following data for June :

Opening stock 10,000 units, closing stock 6,000 units,

Sales 13,000 units.

Production then will be

a) 5,000 units b) 7,000 units

c) 9,000 units d) 11,000 units.

xix) Direct material is a

a) fixed cost b) variable cost

c) semi-variable cost d) none of these.

xx) A company makes Rs. 6,000 profit from Rs. 70,000 sales. Fixed cost is Rs. 15,000. What is the break-even sales ?

a) Rs. 45,000 b) Rs. 50,000

c) Rs. 55,000 d) Rs. 60,000.

GROUP – B

(Short Answer Type Questions)

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

2. What does financial planning involve ?

3. What is compounding and discounting in time value of money ?

4. What is the debt service coverage ratio and what does it indicate ?

5. What is a budget ?

6. Define (a) Flexible budget and (b) zero-based budget.

7. Briefly explain the concept of cost-volume-profit analysis.

8. What is a Master Budget ? What are its components ?

9. You deposit Rs. 2,000 at the end of every year for 5 years in a savings account, which pays 5% interest compounded annually. Determine the sum of money you will have at the end of the 5th year.

10. You deposit at the end of each year, Rs. 2,000, Rs. 3,000, Rs. 4,000, Rs. 5,000 and Rs. 6,000 for the consequent 5 years respectively. At the end of 5 years, what will be the value of the series of deposits with 6% rate of compound interest ?

11. A company paid its first cash dividend of Rs. 3 today and dividends are expected to grow at a rate of 20% per year for the next three years. Thereafter, cash dividends are likely to grow at a 10% rate per year. Shareholders expect a 15% return on their investments.

    Calculate the current price of the share.

12. The market price of a Rs. 1,000 par value bond carrying a coupon rate of 14% and maturing after 5 years is Rs. 950. What is the YTM of this bond ?

13. The sales of a company in a month were Rs. 3,00,000.

GROUP – C

(Long Answer Type Questions)

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

14. Fill in the missing numbers of the estimated P & L account and construct the estimated balance sheet for 31. 12. 12.

Calculate : (a) operating profit margin, (b) net profit margin, (c) interest cover, (d) debt-equity ratio, (e) return on equity, (f) return on investment, (g) change in net working capital during 2012 :

For the year ended December, 31, 2012	***Rs.***
Net sales	70,100
Cost of goods sold	—
Stocks	42,100
Wages	6,800
Other manufacturing expenses	—
Gross profit	14,900
Administration & selling	—
Operating profit (EBIDT)	11,900
Depreciation	3,000
Interest	2,100
Profit before tax	—
Tax	3,400
Profit after tax	—
Dividends	2,800

As on	**31. 12. 12 *Rs.***	**31. 12. 11 *Rs.***
Share capital	No change	15,000
Reserves & surplus		10,600
Total loans	Increases by 5600	15,600
Sundry creditors	Increases by 2400	8,100
Total liabilities		**49,300**
Gross fixed assets	Increases by 3800	34,900
Accumulated depreciation		2,700
Net fixed assets		32,200
Investments	No change	1,500
Sundry debtors	Increases by 4100	7,800
Inventories	Increases by 3300	7,200
Cash and Bank		600
Total Assets		**49,300**

15. Summarised below are the income and expenditure forecasts for the months March to August, 2012. Prepare cash budget for the 3 months starting from May 1, 2012.

Months	***Sales (all credit) (Rs.)***	***Purchases (all credit) (Rs.)***	***Wages (Rs.)***	***Mfg Exp. (Rs.)***	***Other Exp. (Rs.)***
March	3,500	2,400	600	300	425
April	3,700	2,500	500	250	400
May	3,800	2,200	700	350	425
June	3,400	2,300	450	225	375
July	3,200	2,350	550	250	350
August	3,600	2,250	500	200	400

Additional information :

i) Machinery costing Rs. 1,000 is due for delivery in July, payable 10% on delivery and the balance after three months.

ii) Advance tax of Rs. 500 each is payable in March and June.

iii) Credit period allowed : (a) to customers 1 month and (b) by suppliers 2 months.

iv) Lag in payment of manufacturing expenses : $\frac{1}{2}$ month.

v) Lag in payment of other expenses : 1 month.

vi) Cash on hand as on May 1, 2012 Rs. 500.

16. From the following information prepare a cash budget for the period from May 1, 2012 to August 31, 2012.

Months	***Credit Purchase (Rs.)***	***Credit Sales (Rs.)***	***Wages (Rs.)***	***Selling Expenses (Rs.)***	***Overheads (Rs.)***
March	8,500	16,000	3,200	800	1,000
April	9,200	18,500	3,700	950	1,150
May	10,000	21,000	4,200	1,050	1,300
June	12,000	24,500	4,900	1,250	1,450
July	9,000	17,800	3,550	890	1,050
August	9,800	18,200	3,600	900	1,100

Additional information :

i) Expenditure on machinery worth Rs. 5,000 is payable in June.

ii) Selling commission at 2% on sales is payable one month after sales.

iii) Expected cash sales per month Rs. 1,500. No commission is payable on cash sales.

iv) Credit period allowed to debtors 2 months.

v) Credit period allowed to creditors 1 month.

vi) Lag in payment of wages, selling expenses and overheads 1 month.

vii) Expected cash balance on May 1, 2012 Rs. 1,050.

17. a) A firm can invest Rs. 10,000 in a project with a life of three years. The projected cash inflows are Rs. 4,000, Rs. 5,000 and Rs. 4,000 respectively for the three years. The cost of capital is 10% per annum. Should the investment be made ?

b) How is the present value and future value of an annuity calculated ? Explain with examples. 6 + 9

18. From the following Balance Sheet of *ABC* Ltd. of 2005 and 2006 prepare a schedule of changes in working capital and a fund flow statement (all figures in Rs.) :

Liabilities	**2006**	**2005**	***Assets***	**2006**	**2005**
Share capital	1,00,000	1,00,000	Goodwill	12,000	12,000
General reserve	18,000	14,000	Building	36,000	40,000
P & L A/c	13,000	16,000	Plant	36,000	37,000
Creditors	5,400	8,000	Investments	11,000	10,000
Bills payable	800	1,200	Stock	23,400	30,000
Provision for taxation	18,000	16,000	Bills receivable	3,200	2,000
Provision for doubtful debts	600	400	Debtors	19,000	18,000
			Cash	15,200	6,600
	1,55,800	**1,55,600**		**1,55,800**	**1,55,600**

Additional information :

i) Depreciation on plant was Rs. 4,000 and on building Rs. 4,000.

ii) Provision for taxation of Rs. 19,000 was made during the year 2006.

iii) Interim dividend of Rs. 8,000 was paid during the year 2006.

19. A company manufacturing one type of commodity, selling at Rs. 20 per unit, has the capacity to produce 40,000 units. The budget for the year ending 31. 12. 2012 predicts sales of 32,000 units. The costs of each unit are expected to be as follows :

Materials	Rs. 6
Wages	Rs. 4
Overheads	Rs. 2

Fixed costs of the year are expected to be Rs. 2,40,000.

a) Calculate the break-even point for the year.

b) What profit can be expected during the year, assuming that the opening and closing stocks remained constant ?

c) If the management is willing to invest Rs. 2,00,000 with an expected return of 20%, how many units must be produced to achieve this ?

d) If, by reducing the selling price to Rs. 19, extra sales can be expected, what must be the volume of production and sales to achieve the same profits as in (c) above ? 5 + 3 + 5 + 2

20. From the following data calculate the profit, break-even point in units and value, margin of safety as a percentage of sales : 5 + 7 + 3

Quantity sold	10,000 units
Sales price	Rs. 20 per unit
Variable cost	Rs. 10 per unit
Fixed cost	Rs. 40,000

21. Discuss the different financial goals of a firm.