VCD 12/022. SYEME. SEM-III FINANCIAL MANAGEMENT 2½ HRS. MARKS 75

Q1. A) Fill in the blanks. Attempt any 8. (8)

1. NPV considers __________ of money.
   a)time value b)ARR c)discount d)Payback Period
2. _______________ helps the investors to decide the return on investment.
   a) ARR b) Payback Period c)discount d) Capital Budgeting
3. The Cost of loan is considered ___________ tax.
   a) post b) pre c) TDS d) lower
4. Higher the tax rate, the ____________ the after tax cost of debt financing.
   a) higher b) greater c) more d) lower
5. Credit sales are ______ as cash payment remains unreceived.
   a) higher b) risky c) simple d) lower
6. Receivables may be represented by bills receivables or ____________ balance.
   a) creditors b) debtors c) assets d) liabilities
7. Business Restructuring focuses on _________.
   a) assets b) purchase consideration c) cost reduction d) liabilities
8. ____________ improving efficiency and profitability.
   a) Liabilities b) Business Restructuring c) Assets d) Cost reduction
9. A company's working capital is made up of its _________ minus its current liabilities.
   a) Liabilities b) Cash c) Current Assets d) Creditors
10. ________ are any obligations due within the following 12 months.
    a) Current Liabilities b) Cash c) Current Assets d) Loans

Q1 B) State true or false. Attempt any 7. (7)

1. Capital Budgeting decisions are long term decisions.
2. Investment decisions and capital budgeting are same.
3. Equity Investers are high risk bearers.
4. Cost of capital is used in Capital Budgeting decisions.
5. In a competitive market, higher volume of sales is made on credit.
6. The working capital ratio or current ratio is calculated as current assets divided by current liabilities.
7. Ordering costs do not impact the maintenance of receivables.
8. Mergers and acquisitions helps to increase market share.
9. The efficiency of working capital management can be quantified using ratio analysis.
10. Restructuring is a method of changing the organizational structure in order to achieve the strategic goals of the organization.

Q2. ABC Ltd provides on Income statement as given below Income statement for the year ended 31/3/2015.

Particulars		Rs
Sales		10,50,000
less: Variable cost	7,67,000	
Fixed cost	75,000	8,42,000
EBIT		2,08,000
less: Interest		1,10,000
EBT		98,000
less Taxes @ 30%		29,400
Net Income		68,600

Calculate (i) Operating Leverage (ii) Financial Leverage (iii) Combined Leverage. (15)

OR

Q2. A) A Company issues 40,000 12% Redeemable Preference shares Rs 100 each at a premium of Rs 5 each, redeemable after 10 years at a premium of Rs 10 each. The Flotation Cost of each share is Rs 2. You are required to calculate cost of preference share. (8)

Q2. B) A company offers equity shares of Rs10 each for Public Subscription at a premium of 5%. Company pays 2% of issue price as under writing commission. The rate of dividend expected by Equity Shareholders is 30%. You are required to compute the cost of equity capital. (7)

Q3. BJK Ltd. is preparing its cash budget for the year 2017-18. An extract from its budget for the same year shows the following values: (15)

Month	Sales	Purchase of Wages	Material
April 2017	1,50,000	50,000	10,000
May 2017	1,80,000	60,000	12,000
June 2017	1,40,000	65,000	13,000
July 2017	1,50,000	70,000	14,000

(a) 40% of its sales are expected to be for cash. Of its credit sales, 50% are expected to pay in the month after the month of sales and 50% are expected to pay in the second month after the amonth of sales.
(b) The company has estimated to pay 50% of total materials in cash and rest amount will be paid in the following month.
(c) Wages are paid on the 2nd day of the following month.
(d) The opening balance of cash as on 1st May is 30,000.
Prepare the cash budget for the period May to July 2017.

OR

Q3. Determine the (a) Pay Back Period and (b) A.R.R. from the following information of a proposed project.

Particulars	Rs.
Cost	5,20,000
Annual Profits after Tax and Depreciation	
Year	
1	30,000
2	50,000
3	70,000
4	90,000
5	1,10,000
Total	3,50,000

Estimated life = 5 years
Estimated scrap value = Rs. 20,000. (15)

Q4. In order to increase sales from the normal level of Rs. 2,40,000 per annum, the marketing manager submits a proposal for liberalising credit policy as under:
Normal sales Rs. 2,40.000
Normal credit period 30 days

Proposed increase in credit period beyond normal 30 days	Relevant increase over normal sales Rs.

15 days	12,000
30 days	18,000
45 days	21,000
60 days	24,000

The P.V. ratio of the company is 33·33 per cent. The company expects a pre-tax return of 20% on investment. Evaluate the above four alternatives and advise the management (assume 360 days a year). **(15)**

OR

Q4. Prepare Cash Budget for three months ended in December 2017, from the following information **(15)**

(a) The estimated sales expenses are as follows:

Particulars	September 2017	October 2017	November 2017	December 2017
Gross Sales	25,000	25,000	30,000	32,500
Purchases	10,000	10,000	12,500	14,000
Wages and Salaries	9,000	9,000	10,000	11,000
Miscellaneous Expenses	3,000	3,500	3,500	3,500
Interest Received	-	1000	-	1000
Sale of Shares	-	-	10000	-

(b) 20% of the sales is on cash.
(c) 1% of the credit sales are returned by customers and bad debts for October, November and December 2017 are 800, 760 and 740 respectively.
(d) 50% of the good accounts are collected in the month of sale and the rest in the next month.
(e) Time lag in the payment of Miscellaneous expenses and purchases in one month.
(1) Wages and salaries are paid 50% in the same month and balance in next month.
(g) The opening cash balance is 25,000.

Q5. A) Explain the term Working Capital Management. (8)
Q5. B) List the Functions of Financial Management. (7)

Q5. Short Notes. Attempt Any three. (15)
1.Purchase Consideration
2.Components of Working Capital
3.Importance of Business Restructuring
4.Sources of Finance
5.Objectives of Financial Management