(7 pages)

1220/BC4 **MAY 2007**

FINANCIAL MANAGEMENT

(For those who joined in July 2003 and after)

Time : Three hours Maximum : 100 marks

SECTION A — (4 × 10 = 40 marks)

Answer any FOUR questions.

Each questions carry equal marks.

1. Compare the value of the information obtained from an examination a single balance sheet with that obtained from a series of balance sheet?

2. How is the degree of operating leverage measured?

3. What is working capital? What are the different factors to be taken in estimating?

4. Balu & Co. presents the following Financial Statements for 1988 and 1989. Prepare a Cash flow statement.

Balance Sheet

Liabilities	1988 Rs.	1989 Rs.	Assets	1988 Rs.	1989 Rs.
Bills payable	4,52,000	6,28,000	Cash	1,06,000	62,000
Creditors	8,26,000	12,54,000	Investment	1,74,000	–
Loan from Bank	2,00,000	4,70,000	Debtors	6,92,000	10,56,000
Reserves and Surplus	13,84,000	17,28,000	Stock	8,64,000	13,66,000
Share Capital	12,00,000	12,00,000	Net fixed assets	22,26,000	27,96,000
	40,62,000	52,80,000		40,62,000	52,80,000

Depreciation of Rs. 3,78,000 was written off for the year 1989 on fixed assets.

5. From the following information, prepare a summarized Balance Sheet as at 31-03-1990.

Stock velocity	–	6
Fixed assets turnover ratio	–	4
Capital turnover ratio	–	2
Gross profit ratio	–	20%
Debt collection period	–	2 months
Creditors payment period	–	73 days.

The gross profit was Rs. 60,000. Closing stock was Rs. 5000 in excess of opening stock. All workings should form part of your answer.

6. The sales director of a manufacturing company reports that next year he expects to sell 50,000 units of a particular product.

The production manager consults the store-keeper and casts his figures as follows:

Two kinds of raw materials A and B are required for manufacturing the product.

Each of the products requires 2 units of A and 3 units of B. The estimated opening balances all the commencement of the next year are:

Finished product		– 10000 units
Raw Material :	A	– 12000 units
	B	– 15000 units

The desirable closing balances at the end of the next year are : Finished product 14000 units; Raw Materials : A – 13000 units; B – 16000 units. Prepare production Budget and Materials purchase budget for the next year.

7. From the following information, calculate

(a) Break-even point

(b) Number of units that must be sold to earn a profit of Rs. 60,000 per year.

(c) Number of units that must be sold to earn a net income of 10% on sales.

Sales price	– Rs. 20 per unit
Variable cost	– Rs. 14 per unit
Fixed cost	– Rs. 79,200.

8. From the following information of M/s Satyam & Co., you are required to forecast their working capital requirements.

Projected annual sales	Rs. 130 lakhs
Percentage of Net profit on Cost of Sales	20%
Average credit allowed to Debtors	8 weeks
Average credit allowed by creditors	5 weeks
Average stock carrying (in terms of sales requirement)	4 weeks

Add 10 % to computed figures to allow for contingencies.

SECTION B — (3 × 20 = 60 marks)

Answer any THREE questions.

Each questions carry equal marks.

9. Explain in detail different types of capital structure theories.

10. Define the scope of financial management. What role should the financial manager play in modem enterprise?

11. Aruna Ltd., is considering the purchase of a new machine which will carry out some operations performed by labour. A and B are alternative models. From the following information, you are required to prepare a profitability statement and work-out the pay-back period, present values, net present value and profitability index :

	Machine A	Machine B
Estimated life (years)	5	6
Cost of machine (Rs)	1,50,000	2,50,000
Cost of indirect materials (Rs.)	6,000	8,000
Estimated saving in scrap (Rs.)	10,000	15,000
Additional cost of maintenance (Rs.)	19,000	27,000
Estimated saving in wages :		
Employees not required (number)	150	200
Wages per employee (Rs.)	600	600

Assume tax rate at 50% and cost of capital 10%. Which model would you recommend?

12. Following are the Balance Sheets of M/s. Sasi and Rams as on 1–1–91 and 31–12–91.

Liabilities	1–1–91 Rs.	31–12–91 Rs.	Assets	1–1–91 Rs.	31–12–91 Rs.
Creditors	40,000	44,000	Cash	10,000	7,000
Loan from			Debtors	30,000	50,000
Sasi	25,000	—	Stock	35,000	25,000
Loan from			Machinery	80,000	55,000
Bank	40,000	50,000	Land	40,000	50,000
Capital	1,25,000	1,53,000	Building	35,000	60,000
	2,30,000	2,47,000		2,30,000	2,47,000

During the year a machine costing Rs. 10,000 (accumulated depreciation Rs. 3,000) was sold for Rs. 5,000. Provision for depreciation against machinery as on 1–1–91 was Rs. 25,000 and on 31–12–91 Rs. 40,000. Net profit for the year 1991 amounted to Rs. 45,000. You are required to prepare a funds flow statement.

13. The sales and profit for 1996 and 1997 are as follows:

	Sales Rs.	Profit Rs.
1996	1,50,000	20,000
1997	1,70,000	25,000

Find out:

(a) P/V Ratio

(b) BEP

(c) Sales for a profit of Rs. 40,000

(d) Profit for sales of Rs. 2,50,000 and

(e) Margin of safety at a profit of Rs. 50,000.

14. From the following forecasts of income and expenditure prepare a cash budget for the 3 months commencing 1st June, when the bank balance was Rs. 1,00,000.

Month	Sales Rs.	Purchases Rs.	Wages Rs.	Factory expenses Rs.	Administration And selling expenses Rs.
April	80,000	41,000	5,600	3,900	10,000
May	76,500	40,500	5,400	4,200	14,000
June	78,500	38,500	5,400	5,100	15,000
July	90,000	37,000	4,800	5,100	17,000
August	95,000	35,000	4,700	6,000	13,000

A sales commission of 5 % on sales, due two months after sales, is payable in addition to selling expenses. Plant valued at Rs. 65,000 will be purchased and paid for in August, and the dividend for the last financial year of Rs. 15,000 will be paid in July. There is a two month credit period allowed to customers and received from suppliers.