

FY DFM - Papers III
Financial Management '08

May 2008

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Qn. 2380-08.

BB-8500

Power. 20

(3 Hours)

[Total Marks : 100

- B. (1) Question No. 1 is compulsory and carries 20 marks.
 (2) Attempt any four from the remaining.
 (3) Working to form part of the answers and make and state clearly assumptions where necessary.

1. Following are the summarized balance sheet of XYZ Ltd. as at 31st December, 2000 and 31st December, 2001.

BALANCE SHEET

Liabilities	31-12-00	31-12-01	Assets	31-12-00	31-12-01
Share capital (Share of Rs. 100 each)	2,00,000	2,50,000	FA at cost	2,50,000	3,00,000
			Less : Depr. till date	68,000	82,000
Reserves and Surplus 13.5% convertible	80,000	87,000		1,82,000	2,18,000
Debentures	1,00,000	80,000	Trade Invst.	1,25,000	1,35,000
Public Deposit	30,000	25,000	Marketable invst.	6,000	3,000
Current liab. and Provisions	62,000	71,000	Inventories	41,000	52,000
Proposed dividend	20,000	25,000	Book Debts	53,000	50,500
			Cash and Bank	12,000	14,000
			Preliminary exp.	10,000	5,000
			Capital work in progress	63,000	60,500
Total	4,92,000	5,38,000	Total	4,92,000	5,38,000

You are informed that during 2001 :-

- (1) Rs. 20,000 of debentures were converted into shares at par.
- (2) Rs. 20,000 shares were issued to the shareholders as bonus shares, fully paid amount of reserves.
- (3) Rs.10,000 shares were issued to a vendor of fixed assets who has supplied a machine costing Rs.12,000.
- (4) A machine costing Rs. 5000 book value Rs. 3000 as on 31st December 2000 was disposed off for Rs. 2000.

You are required to prepare the fund flow statement of the company and a statement Showing changes in working capital.

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2. Following is the Balance Sheet and Profit and Loss A/c. of Ashok Leyland :-

Balance Sheet as on 31-12-2001

Liabilities	Rs.	Assets	Rs.	Rs.
Equity share capital (Rs. 10)	1,00,000	Building	1,00,000	
10% Pref. Share Capital	40,000	Less : Depre.	20,000	
P & L A/c.	50,000			80,000
Mortgage Loan	1,00,000	Piant		1,00,000
Creditors	60,000	Stock		1,00,000
Taxes payable	50,000	Debtors (Last year 80,000)		60,000
		Short term investment		20,000
		Cash		40,000
Total	4,00,000	Total	4,00,000	4,00,000

[TURN OVER

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P & L A/c. for the year ended 31-12-2001 :—

To Open Stock	1,00,000	By Sales	5,50,000
To Purchases	2,00,000	By Stock	1,50,000
To Gross Profit	4,00,000		
	<hr/>		<hr/>
	7,00,000		7,00,000
	<hr/>		<hr/>
To Operating Exp.	1,50,000	By Gross Profit b/d.	4,00,000
To Operating Profit	2,50,000		
	<hr/>		<hr/>
	4,00,000		4,00,000
	<hr/>		<hr/>
To Interest on Loan	65,000	By Operating Profit	2,50,000
To Profit before Tax	1,85,000		
	<hr/>		<hr/>
	2,50,000		2,50,000
	<hr/>		<hr/>
To Income Tax	95,000	By P.B.T.	1,85,000
To N. P. after Taxes	90,000		
	<hr/>		<hr/>
	1,85,000		1,85,000
	<hr/>		<hr/>

- (i) Represent the balance sheet and P & L A/c. in vertical form and
 (ii) Calculate :

- current ratio
- quick ratio
- debtors turnover
- collection period
- stock turnover
- debt service ratio
- earning per share
- dividend payment ratio
- creditors turnover.

Note : the company paid dividend on equity shares @ 20%.

3. Polly textile company has an investment opportunity involving an outlay of Rs. 80,000. The expected net cash flows after taxes and before depreciation are :—

Year	1	2	3	4	5	6	7	8	9	10
Net cash Flows (Rs.)	14,000	14,000	14,000	14,000	14,000	16,000	30,000	20,000	20,000	8,000

Using 15% as rate of discount, you are required to compute the following :—

- payback period
- net present value
- profitability index

Value of Re. 1 @ 15% discounting factor :—

Year	1	2	3	4	5	6	7	8	9	10
15% Discounting	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327	0.284	0.247

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5,50,000
 1,50,000

 7,00,000

 4,00,000

 4,00,000

 2,50,000

 2,50,000

 1,85,000

 1,85,000

A Ltd., manufactures and sells radio components from the following particulars estimate the working capital required, assuming that the company maintains minimum cash and bank balance of Rs. 20,000 to meet contingencies :— 20

- (a) Estimated sales for the year 1,30,000 units
- (b) Materials remain in process for two weeks
- (c) Finished goods remain in stock on an average of two weeks
- (d) Credit available from suppliers of materials for two weeks
- (e) Credit allowed to customers—four weeks – 1/4 of sales are on cash basis
- (f) Time lag in payment of wages and overheads – two weeks.
- (g) Operations are evenly distributed through out the year
- (h) Selling price per unit is Rs. 15
- (i) Cost per unit is estimated as follows :—

Material Rs. 5/-
 Labors Rs. 3/-
 Overheads Rs. 2/-

Assume that sales are only on credit basis and a year is of 52 weeks.

Write short notes on (any four) :— 20

- (a) Cost of capital
- (b) Discounted payback period
- (c) Trading on equity
- (d) Limitations of ratio analysis
- (e) Plough back profit.

Compare and Contrast (any two) :— 20

- (a) NPV and IRR
- (b) Overcapitalization and Undercapitalization
- (c) Vertical analysis and Horizontal analysis.

What is the ratio and explain how following ratios help the management in interpretation of financial data :— 20

- (a) Acid test ratio
- (b) Stock working capital ratio
- (c) Proprietary ratio
- (d) Debtor turnover ratio.

What are the important considerations for taking dividend decisions ? 20

Rs. 50,000.

9	10
0,000	8,000

9	10
0.224	0.247