

**FINANCIAL MANAGEMENT**

(For students admitted in 2014 and 2015 only)

Time: 3 hours

Max. Marks: 60

All questions carry equal marks

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**SECTION – A**

Answer the following: (05 X 10 = 50 Marks)

- 1 Who is financial manager? Review the changing role of the finance manger and his/her position in the management hierarchy.

**OR**

- 2 How is finance function related to management functions? State the differences between long-term finance decisions.

- 3 XYZ Ltd is looking to take up the project. It has the following information:

| Particulars   | Cash flows     |                |                |
|---------------|----------------|----------------|----------------|
|               | C <sub>1</sub> | C <sub>2</sub> | C <sub>3</sub> |
| Cash receipts | 20000          | 16000          | 14000          |
| Cash payments | 10000          | 8000           | 7000           |
| Gross profit  | 10000          | 8000           | 7000           |
| Depreciation  | 4000           | 4000           | 4000           |
| Net profit    | 6000           | 4000           | 3000           |

The initial investment of the project is estimated as Rs. 12000.

(i) Calculate the project's payback period. (ii) Of it is found that the initial investment will be Rs. 9,000 and cash expenses will be more by Rs. 1,000 each year, what will be the project's accounting rate of return.

**OR**

- 4 Compare and contrast NPV & IRR and emphasize the superiority of NPV rule.

- 5 Explain the factors that determine the choice of sources of finance.

**OR**

- 6 Define capital structure. Describe the various tools for designing optimum capital structure.

- 7 How would you monitor receivables? Explain the pros and cons of various methods.

**OR**

- 8 From the following information, you are required to prepare statement showing working capital needed to finance a level of activity of 156000 units of production. The per unit cost details were given below.

| Element of cost | Cost per unit |
|-----------------|---------------|
| Raw-materials   | 90            |
| Direct labour   | 40            |
| Overheads       | 75            |
| Total cost      | 205           |
| Profit          | 60            |
| Selling price   | 265           |

- (a) Raw materials are in stock on an average of one month.  
 (b) Materials are in process on an average of 2 weeks.  
 (c) Finished goods are in stock on average of one month.  
 (d) Credit allowed by suppliers – 1 month.  
 (e) Time lag in receipt from debtors – 2 months.  
 (f) Lag in payment of wages –  $1\frac{1}{2}$  weeks.  
 (g) Lag in payment of overheads – 1 month. 20 percent of the output is sold against. Cash in hand is expected to be Rs. 60000. It is to be assumed that production is carried out evenly throughout the year. Wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

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9 What are the main elements of the report on corporate governance in the annual reports of companies?

**OR**

10 What is corporate restructuring? State the major forms in which it can be carried out.

**SECTION – B**

(Compulsory Question)

01 X 10 = 10 Marks

**11 Case study:**

On 30<sup>th</sup> September, 2012 the balance sheet of M Ltd was as under:

| Liabilities                  | Amount | Assets             | Amount |
|------------------------------|--------|--------------------|--------|
| Equity shares of Rs. 10 each | 20000  | Equipment at cost  | 20000  |
| Reserves and surplus         | 10000  | Less: Depreciation | 5000   |
| Creditors                    | 40000  | Inventory          | 20000  |
| Proposed dividend            | 15000  | Debtors            | 15000  |
|                              |        | Cash at bank       | 35000  |
| Total                        | 85000  | Total              | 85000  |

The company is developing a system of forward planning and on 1<sup>st</sup> October, 2012 it supplies the following information:

| Month                     | Sales  |       | Purchases |
|---------------------------|--------|-------|-----------|
|                           | Credit | Cash  | Credit    |
| September, 2012 (actual)  | 15000  | 14000 | 40000     |
| October, 2012 (budgeted)  | 18000  | 5000  | 23000     |
| November, 2012 (budgeted) | 20000  | 6000  | 27000     |
| December, 2012 (budgeted) | 25000  | 8000  | 26000     |

(i) The debtors are allowed one month credit and are expected to settle promptly.

(ii) The creditors are paid in the month following delivery.

(iii) On 1<sup>st</sup> October, 2012 the equipments were replaced at a cost of Rs. 30000, Rs. 14000 was allowed in exchange for the old equipment and a net payment of Rs. 16000 was made.

(iv) The proposed dividend will be paid in December, 2012.

(v) The following expenses will be paid: Wages Rs. 3000 per month, administration – Rs. 1500 per month and rent – Rs. 3600 for the year up to 30<sup>th</sup> September, 2013 (to be paid in October, 2012).

You are required to prepare a financial budget for the months of October, November and December, 2012.

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