SVKM's NMIMS University
School of Distance Learning

Financial Management / Financial Analysis & Management

Date: 11.12.2007 **Marks: 100**
Time: 3.00 to 6.00

SECTION - A

Answer any two from the following four questions. Each question carries 20 marks.

Q.1. Explain "Wealth maximization" and "Profit maximization" objectives of financial management.
Q.2. Explain the importance and limitations of ratio analysis.
Q.3. What are long-term sources of finance?
Q.4. Discuss the profitability versus risk trade-offs associated with alternative combinations of short-term and long-term debt used in financing a company's assets.

SECTION – B

Answer any three from the following six questions. Each question carries 20 marks.

Q.5. Following are the summarized profit and loss account and balance sheet of B Limited for the year 2001:

Profit and Loss Account

	Rs.		Rs.
To Opening Stock	99,500	By Sales	8,50,000
To Purchases	5,45,250	By Closing Stock	1,49,000
To Incidental expenses	14,250		
To Gross Profit	3,40,000		
	9,99,000		9,99,000
To Operating expenses:		By Gross Profit	3,40,000
Selling & distribution	30,000	By Non-Operating income	
Administrative expenses	1,50,000	Interest	3,000
Finance expenses	15,000	Profit on sale of shares	6,000
To Non-operating expenses:			
Loss on sale of assets	4,000		
To Net Profit	1,50,000		
	3,49,000		3,49,000

Balance Sheet

	Rs.			Rs.
Issued Capital:		Land and building		1,50,000
2,000 Ordinary Shares		Plant, machinery etc.		80,000
Of Rs.100 each	2,00,000	Stock-in-trade		1,49,000
Reserves	90,000	Sundry Debtors	75,000	
Current Liabilities	1,30,000	Less: Provisions		
		For doubtful debts	4,000	71,000
Profit & loss account	60,000	Cash and Bank balances		30,000
	4,80,000			4,80,000

From this statement, you are required to calculate the following ratios and state the purpose they are: (i) current ratio, (ii) operating ratio, (iii) stock turnover ratio, (iv) fixed assets turnover, (v) return on capital employed.

Q.6. From the following balance sheet of XYZ Ltd., prepare the cash flow statement:

		20 x 0 Rs.		20 x 1 Rs.
Assets:				
Land		1,83,000		1,98,000
Machinery	6,00,000		7,25,000	
Less: Accumulated depre.	1,20,000		1,45,000	
		4,80,000		5,80,000
Loan to director		25,000		Nil
Investments		30,000		40,000
Inventory		1,60,000		1,48,000
Debtors		1,20,000		1,62,000
Bank balance		67,000		98,000
Total (Rs.)		**10,65,000**		**12,26,000**
Liabilities:				
Equity share capital		4,50,000		6,00,000
Share Premium		Nil		15,000
Profit and loss a/c		60,000		1,10,000
18% Debentures		2,50,000		2,00,000
Profit on redemption of debentures		Nil		1,000
Sundry creditors		2,20,000		1,90,000
Provision for taxation		40,000		50,000
Proposed dividend		45,000		60,000
Total (Rs.)		**10,65,000**		**12,26,000**

During the year, plant costing Rs.40,000 was sold for Rs.15,000. Accumulated depreciation was Rs.20,000. Tax paid during the year was Rs.55,000.

Q.7. XYZ Ltd., a new company, commences its business on April 1 and deposits Rs.1,00,000 in the bank. This sum will be insufficient to finance its operations over a period of 6 months, and you are asked to prepare a cash budget from April to September to determine the monthly overdraft limits to seek from the company bankers.

i) Sales are made to one distributor only on 30 day terms, 3% discount, and cheques are received on the first day of the month following the due date.

ii) Plant purchases totaling to Rs.50,000 are to be made in April.

iii) Budgeted figures are :

	April	May	June	July	August	September
Purchase	50000	40000	30000	40000	40000	50000
Wages	40000	50000	40000	40000	50000	40000
Expenses	4000	5000	4000	4000	5000	4000
Sales	60000	70000	80000	80000	90000	120000

All purchases are made on net 30 days terms.

Q.8. A proforma cost sheet of a company provides the following particulars:

Elements of cost:	Amount per unit
Raw materials	Rs. 80
Direct labour	30
Overhead	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available :

Raw materials in stock, on average, one month; Materials in process (completion stage, 50 per cent), on average, half a month; Finished goods in stock, on average one month.

Credit allowed by suppliers is one month; Credit allowed to debtors is two months; Average time-lag in payment of wages is 1.5 weeks and one month in overhead expenses; one-fourth of the output is sold against cash; cash in hand and at bank is desired to be maintained at Rs.3,65,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production. You may assume that production is carried on evenly throughout the year, and wages and overheads accrue similarly.

Q.9. As investment of Rs.1,36,000 yields the following cash inflows (profit before depreciation but after tax):

Year	Rs.
1.	30,000
2.	40,000
3.	60,000
4.	30,000
5.	20,000
	1,80,000

Calculate NPV at 10% discounting factor.

Q.10. Discuss important functions of finance manager.

-------------- **All the Best** ---------------