

**PSG COLLEGE OF ARTS & SCIENCE**  
(AUTONOMOUS)

**BBA DEGREE EXAMINATION MAY 2018**  
(Fourth Semester)

Common to Branches – **BUSINESS ADMINISTRATION,**  
**BUSINESS ADMINISTRATION (INFORMATION SYSTEMS) &**  
**BUSINESS ADMINISTRATION (RETAIL MANAGEMENT)**

**FINANCIAL MANAGEMENT**

Time : Three Hours

Maximum : 75 Marks

**SECTION-A (20 Marks)**

Answer ALL questions

ALL questions carry EQUAL marks

(10 x 2 = 20)

- 1 What is Financial Management?
- 2 What is Profit Maximization?
- 3 What is financial leverage?
- 4 What is Cost of debt?
- 5 What is inventory turnover ratio?
- 6 What is liquidity ratio?
- 7 What is speculative motive of holding cash?
- 8 What is net working capital?
- 9 Write short note on discounted cash flow method.
- 10 What is net present value method of capital budgeting?

**SECTION - B (25 Marks)**

Answer ALL Questions

ALL Questions Carry EQUAL Marks (5 x 5 = 25)

- 11 a From the following balance sheet of Mr. Dinesh prepare fund flow statement.

Liabilities	2010 (Rs.)	2011 (Rs.)	Assets	2010 (Rs.)	2011 (Rs.)
Capital	70,000	58,000	Land	60,000	54,000
Sundry Creditors	10,000	9,000	Plant	20,000	15,000
Bills Payable	14,000	12,000	Stock	1,000	1,200
Outstanding Expenses	1,000	1,000	Debtors	7,000	4,500
			Cash	1,000	800
			Bills Receivables	6,000	4,500

OR

- b From the following, prepare a statement showing changes in working capital during 2016.

**Balance sheet of Sree Ganesh Ltd., as on 31<sup>st</sup> December**

Liabilities	2015 (Rs.)	2016 (Rs.)	Assets	2015 (Rs.)	2016 (Rs.)
Share capital	6,00,000	6,00,000	Fixed assets	10,00,000	11,20,000
Reserves	50,000	1,80,000	Less : Depreciation	3,70,000	4,60,000
Profit and loss account	40,000	65,000		-----	-----
Debentures	3,00,000	2,50,000		6,30,000	6,60,000
Creditors for goods	1,70,000	1,60,000		-----	-----
Provision for income tax	60,000	80,000	Stock	2,40,000	3,70,000
			Book debts	2,50,000	2,30,000
			Cash in hand and at bank	80,000	60,000
			Preliminary expenses	20,000	15,000
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	12,20,000	13,35,000		12,20,000	13,35,000
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- 12 a The shares of a company are selling at Rs. 40 Per share and it had paid a dividend at Rs 4 per share last year. The investor's market expects a growth rate of 5 percent per year. Calculate company's equity cost of capital.

OR

- b A company has 15 percent perceptual debt of Rs. 1,00,000. The tax rate is 35 percent. Determine the cost of capital (before tax as well as after tax) assuming the debt is issued at (i) par (ii) 10 percent discount and (iii) 10 percent premium.

- 13 a

Liabilities	Rs.	Assets	Rs.
2,000 equity shares of Rs. 100 each	2,00,000	Fixed assets	4,00,000
1,000 9% preference shares of Rs. 100 each	1,00,000	Current assets	2,00,000
1,000 10% debenture of Rs. 100 each	1,00,000		
Reserves : General Reserve	50,000		
Reserves for contingencies	50,000		
Current liabilities	1,00,000		
<b>Total</b>	<b>6,00,000</b>		<b>6,00,000</b>

Calculate debt – equity ratio.

OR

- b Current ratio = 2.8  
 Acid – test ratio = 1.5  
 Working capital = Rs. 1,62,000  
 Find out (i) Current Assets (ii) Current Liabilities (iii) Liquid Assets.
- 14 a List out the advantages of adequate working capital.

OR

- b Explain the various methods of accelerating cash inflows.
- 15 a Determine the payback period for a project which requires a cash outlay of Rs. 10,000 and generates cash inflows of Rs. 2,000, Rs. 4,000, Rs. 3,000, Rs. 2,000 in the first, second, third and fourth year respectively.

OR

- b A limited company is considering investing in a project requiring a capital outlay of Rs. 2,00,000. Forecast of annual income after depreciation but before tax is as follows :

Year	Rs.
1	1,00,000
2	1,00,000
3	80,000
4	80,000
5	40,000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income. Calculate Rate of Return on original investment.

**SECTION - C (30 Marks)**Answer any **THREE** Questions**ALL** Questions Carry **EQUAL** Marks (3 x 10 = 30)

- 16 Prepare a cash flow statement for the year ending 31<sup>st</sup> March from the Balance sheets given below :

Liabilities	March 31 2009 (Rs.)	March 31 2010 (Rs.)	Assets	March 31 2009 (Rs.)	March 31 2010 (Rs.)
Share capital	5,00,000	6,50,000	Fixed assets	4,00,000	5,00,000
General reserve	1,00,000	1,50,000	Less : Depreciation	--	50,000
Profit & loss a/c	50,000	1,50,000		-----	-----
7% debentures	2,00,000	2,00,000		4,00,000	4,50,000
Creditors	2,00,000	2,00,000		-----	-----
Proposed dividend	50,000	65,000	Investment	1,00,000	1,00,000
			Debtors	2,00,000	3,00,000
			Stock	2,00,000	2,50,000
			Cash	1,50,000	3,15,000
			Mis .Exp	50,000	----
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	<b>11,00,000</b>	<b>14,15,000</b>		<b>11,00,000</b>	<b>14,15,000</b>
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- 17 A Simplified income statement of Zenith Ltd. is given below. Calculate and Interpret its degree of operating leverage, degree of financial leverage and degree of combined leverage.

Income Statement of Zenith Ltd. for the year ended 31<sup>st</sup> March 2005

	10,50,000
Variable cost	7,67,000
Fixed cost	75,000
EBIT	2,08,000
Interest	1,10,000
Tax (30%)	29,400
Net Income	68,600

- 18 From the following information, you are required to prepare balance sheet :

Current ratio	=	1.75
Liquid ratio	=	1.25
Stock turnover ratio (Cost of sales / closing stock)	=	9
Gross profit ratio	=	25%
Debt collection period	=	1 ½ months
Reserves and surplus to capital	=	0.2
Turnover to Fixed Assets	=	1.2
Capital Gearing Ratio	=	0.6
Fixed Assets to net worth	=	1.25
Sales for the year	=	Rs. 12,00,000

- 19 Explain the factors influencing the size of receivables.
- 20 From the following information calculate the NPV of two projects and suggest which of two projects should be accepted assuming a discount rate of 10% :

Particulars	Project X	Project Y
Initial investment	Rs. 20,000	Rs. 30,000
Estimated life	5 years	5 years
Scrap value	Rs. 1000	Rs. 2,000

The profits before depreciation and after taxes (cash flows) are as follows :

Particulars	Year -1	Year - 2	Year - 3	Year - 4	Year - 5
Project X :	5,000	10,000	10,000	3,000	2,000
Project Y :	20,000	10,000	5,000	3,000	2,000

Note :

P.V factor at 10% : Year - 1 = 0.909, Year - 2 = 0.826;  
Year - 3 = 0.751; Year - 4 = 0.683; Year - 5 = 0.621.

Z-Z-Z

END