PSG COLLEGE OF ARTS & SCIENCE
(AUTONOMOUS)

BBA DEGREE EXAMINATION DECEMBER 2018
(Fourth Semester)

Branch- BUSINESS ADMINISTARTION/BUSINESS ADMINISTARTION (IS)/ BUSINESS ADMINISTARTION (RM)

FINANCIAL MANAGEMENT

Time : Three Hours Maximum : 75 Marks

SECTION-A (20 Marks)
Answer **ALL** questions
ALL questions carry **EQUAL** marks (10x2 = 20)

1 What is Financial Management?
2 What is Wealth Maximization?
3 What is Cost of Debt?
4 What is Retained Earnings?
5 Find out working capital turnover ratio.

Cash	10,000
Bills Receivable	5,000
Sundry Debtors	25,000
Stocks	20,000
Sundry Creditors	30,000
Cost of Sales	1,50,000

6 From the information giving below, calculate operating profit ratio.

Cost of Goods Sold	4,000
Administrative and Office expenses	35,000
Selling and Distribution expenses	45,000
Net Sales	6,00,000

7 What is net working capital?
8 What is VED analysis?
9 What is net present value method of capital budgeting?
10 Define average rate of return.

SECTION - B (25 Marks)
Answer **ALL** Questions
ALL Questions Carry **EQUAL** Marks (5x5 = 25)

11 a What are the objectives of Financial Management?

OR

b From the following prepare a statement showing changes in working capital during 2009.

Balance Sheets of Sree Ganesh Ltd., as on 31st December

Liabilities	2008 Rs.	2009 Rs.	Assets	2008 Rs.	^2009 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				**6,30,000**	**6,60,000**
Loss account	40,000	65,000	Stock	2,40,000	3,70,000
Debentures	3,00,000	2,50,000	Book Debts	2,50,000	2,30,000
Creditors for			Cash in hand and		
goods	1,70,000	1,60,000	at bank	80,000	60,000
Provision for			Preliminary		
Income Tax	60,000	80,000	expenses	20,000	15,000
	12,20,000	**13,35,000**		**12,20,000**	**13,35,000**

12 a Briefly explain the theories of capital structure.

OR

b The following are the extracts from the financial statements of ABC Ltd.

	Rs. In lakhs
Operating Profit	105
Less: Interest on Debentures	33
	72

Less: Income Tax	36
. Net Profit		36
Equity Share Capital (Share of Rs.10 each) j	200
Reserves and Surplus j	100
15% Non-Convertible debentures	220
	520

The market price per equity share is Rs,12 and per debenture is Rs.93.75. Calculate (i) EPS (ii) Cost of Capital to the company for the debentures fund and the equity.

13 a The following figures relate to the liabilities side of company.

50,000 equity shares of Rs.10 each fully paid	5,00,000
20,000 9% preference shares of Rs.10 each fully paid	2,003)00 ^
General Reserves	50,000
Shares Premium	25,000
Profit and Loss A/c	1,25,000
714% debentures	1,40,000
Mortgage loans	60,000
Sundry Creditors	1,29,000
Bills Payable	74,500
	13,03,500

Find out: (i) Funded Debt to total capitalization ratio

OR

b Following are the particulars pertaining to assets and liabilities of company are given:

Liabilities	**j Rs.**	**Assets !**	**Rs.**
2,500 Equity shares of Rs. 100 each fully paid up I	j 2,50,000	Land and Buildings	4,50,000
2,000 8% preference shares of Rs. 100 each fully paid up	2,00,000	Plant and Machinery	4,00,000
Reserves	2,00,000	Stock in Trade	1,50,000
3,000 9% debentures of Rs. 100 each	3,00,000	Sundry Debtors	1,00,000
Current Liabilities	2,00,000	Cash and Bank balances	45,000
		Prepaid Expenses	5,000
	¡11.50,000[		11,50,000

Calculate (i) debt equity ratio (ii) proprietary ratio (iii) fixed assets to net worth ratio.

14 a Describe the strategies of Cash Management.

OR

b What are the techniques of Inventory Management?

15 a A Project cost Rs.5,00,000 and yields annually a profit of Rs.80,000 after depreciation @ 12% p.a. but before tax of 50%. Calculate the payback period.

OR

b A limited company is considering investing in a project requiring a capital outlay of Rs.2,00,000. Forecast for 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. You are required to evaluate the project according to rate of return on average investment method.

Cont...

SECTION - C (30 Marks)

Answer any **THREE** Questions

ALL Questions Carry **EQUAL** Marks (3 x10 ”30)

16 The following are the summarized balance sheets of XYZ Ltd., as on 31SI December 2008 and 2009.

Balance Sheet

Liabilities	31st December 2008 Rs.	31st December 2009 Rs.	Assets	31st December 2008 Rs.	31st December 2009 Rs.
Capital			Fixed assets	41,000	40,000
7% Redeemable			Less: Depreciation	11,000	15,000
Preference Shares		10,000		**30,000**	**25,000**
Equity Shares	40,000	40,000	Current Assets:		
	40,000	**50,000**	Debtors	20,000	24,000
General Reserve	2.000	2.000	Stock	30,000	35,000
Profit & Loss			Prepaid expenses	300	500
account	1,000	1,200	Cash	1,200	3,500
Debentures	6,000	7,000			
Current Liabilities					
Creditors	12,000	11,000			
Provision for Tax	3,000	4,200			
Proposed dividend	5,000	5,800			
.Bank Overdraft	12,500	6,800			
	81,500	**88,000**		**81,500**	**88,000**

You are required to prepare:

(i) a statement showing changes in the working capital and

(ii) a statement of sources and applications of funds.

17 The Capital Structure and the after tax cost of different sources of funds are given below:

Sources of Funds	Amount in Rs.	Proportion of total	S After tax cost%
Equity Share Capital	7,20,000	0.30	! 15
Retained Earnings	6,00,000	0.25	i 14
Preference Share Capital	4,80,000	0.20	! 10
Debentures	6,00,000	0.25	8

You are required to compute the weighted average cost of capital.

18 From the following details, make out the balance sheet with as details as possible:

(i) Stock Velocity = 6

(ii) Capital Turnover ratio = 2

(iii) Fixed assets turnover = 4

(iv) Gross Profit Turnover ratio = 20%

(v) Debtors Velocity = 2 months

(vi) Creditors Velocity = 73 days

The gross profit was Rs. 60,000. Reserve & surplus amounts to Rs. 20,000. Closing stock was Rs. 5,000 in excess of opening stock.

19 What are the factors affecting the size of receivables? Explain.

Cont...

The Alpha Co. Ltd., is considering the purchase of a new machine. Two alternative machines (A and B) have been suggested, each having an initial cost of Rs.4,00,000 and requiring Rs.20,000 as additional working capital at the end of 1st year. Earnings after taxation are expected to be as follows:

Year	Cash Inflows Machine - A	Cash Inflows Machine - B
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,40,000	1,20,000
5	1,60,000	80,000

The company has a target of return on capital of 10% and on the basis, you are required to compare the profitability of the machines according to NPV method and state which alternative you consider financially preferable?

Note:

P.V.Faetor 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