

# **FINANCIAL MANAGEMENT : 2012**

## **(Old and New Course - 120)**

### **UNIT - 1**

1. (a) What is Finance Function ? What are its objectives ?  
(b) "Finance function of business is closely related to its other functions." Discuss.

**OR**

"Maximization of profits is regarded as the proper objective of investment decision, but it is not as exclusive as maximising shareholder's wealth." Comment.

### **UNIT - 2**

2. (a) What is the purpose of preparing a Cash Flow Statement? How is it prepared ? Explain and illustrate.  
(b) The Sales Turnover and Profit during two years were as follows :

Year	Sales (Rs)	Profit (Rs)
2009	1,40,000	15,000
2010	1,60,000	20,000

You are required to calculate :

- (i) P/V ratio.
- (ii) Sales required to earn a profit of Rs 40,000
- (iii) Profit when sales are Rs. 1,20,000

**OR**

- (a) Give five transactions which do not result in the flow of funds and give five transactions which result in the flow of funds.
- (b) Give treatment of provision for taxation and provision for dividend while preparing funds flow statement.

### **UNIT - 3**

3. From the following information, make out the Balance sheet with as defects as possible :
  - (i) Stock velocity = 6
  - (ii) Capital Turnover Ratio = 2
  - (iii) Fixed Asset Turnover = 4
  - (iv) Gross Profit Turnover Ratio = 20%
  - (v) Debtor's Velocity = 2 Months
  - (vi) Creditor's Velocity = 73 Days

The Gross Profit was Rs. 60,000, Reserve and surplus amounts to Rs 20,000 Closing stock was Rs 5,000 in excess of opening stock.

**OR**

(a) From the following information, calculate :

(i) Current Liabilities

(ii) Current Assets

(iii) Liquid Assets

(iv) Stock

Current Ratio = 2.5

Liquidity Ratio = 1.5

Working Capital Rs.60,000.

(b) The following information is given about a Limited Company :

Profit after tax at 60% Rs.3,00,000

Market Price of Equity Share is Rs 50

Depreciation Rs 40,000

Equity Dividend paid at 20%

Equity Capital of 10 shares Rs 4,00,000

9% Preference share Capital Rs. 2,00,000

Calculate :

(i) Dividend yield on equity shares

(ii) Cover for equity and preference dividend

(iii) Earning per share

(iv) Price Earning Ratio

#### **UNIT - 4**

4. From the following information you are required to estimate the net working capital. <http://prsuonline.com>

Elements of cost:

Material 40%, Labour 20%, Overheads 20%.

(i) It is proposed to maintain a level of activity of 200000 units.

(ii) Betting price is Rs 12 per unit.

(iii) Raw materials are expected to remain in stores for an average period of one month.

(iv) Materials will be in process in an average half month.

(v) Finished goods are required to be in stock for an average period of one month.

(vi) Credit allowed to debtors is two months.

(vii) Credit allowed by suppliers is one month.

You may assume that sales and production follow a consistent pattern. You are required to prepare a statement of working capital and requirements, forecast Profit and loss A/c and Balance sheet of the company assuming that :

	Rs.
Share Capital	15,00,000
8% Debentures	2,00,000
Fixed Assets	1,30,00,000

**OR**

- (a) What is the importance of working capital in a business?  
(b) What is Working Capital ? On the formation of a new business, what considerations are taken into account in estimating the amount of working capital needed ?

**UNIT - 5**

5. From the information ahead calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming discount rate of 10% :

	Project 'X'	Project 'Y'
Initial Investment	Rs 20,000	Rs 30,000
Estimated Life	5 Years	5 Years
Scrap Value	Rs 1,000	Rs 2,000

The profit before depreciation and after taxes (Cash flow) are as follows: <http://prsuonline.com>

	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

**OR**

Explain briefly the following methods of capital budgeting bringing out the advantages and disadvantages to each :

- (i) Pay Back Period method  
(ii) Accounting Rate of Return method