

FINANCIAL MANAGEMENT

MAY - JUNE : 2016

(New Course-119)

Time : 3 Hours] [Maximum Marks : 90 [Minimum Pass Marks : 32

Note : Attempt all the five questions. All Questions carry equal marks. <http://www.prsunotes.com>

UNIT- I

1. What do you mean by Financial Management? Explain its nature and scope.

OR

Write a detailed note on objectives of Financial Management. Explain your views on profit maximisation vs. wealth maximisation:

Unit- II

2. "A fund flow statement is a better substitute for an income statement". Discuss.

<http://www.prsunotes.com>

OR

From the following balances you are required to calculate cash from operations:

	31-1-2015	31-1-2016
	(Rs.)	(Rs.)
Debtors	50,000	47,000
Bills Receivable	10,000	12,500
Creditors	20,000	25,000
Bills payable	8,000	6,000
Outstanding expenses	1,000	1,200
Prepaid expenses	800	700
Accrued income	600	750
Income received in advance	300	250
Profit made during the year		1,30,000

Unit - III

3. Accounting ratios are mere guides and complete reliance on them in division making is suicidal. Explain.

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OR

With the help of the following ratios regarding Indu Films draw the Balance Sheet of the company for the year 2017 :

Current ratio	2.5
Liquidity ratio	1.5
Net working capital	Rs.3,00,000
Stock turnover ratio	6 times
Gross profit ratio	20%
Fixed assets turnover ratio	2 times
Debt collection period	2 months
Fixed assets to shareholders network	0.80
Reserve and surplus to capital	0.50

Unit- IV

4. Write short notes on the following :

- (a) Motives of holding cash
- (b) M-O model

OR

Explain the objective of credit policy. Explain the variables that determine the credit policy of a firm.

Unit- V

5. Despite its weakness, the payback period method is popular in practice. What are the reasons for its popularity? <http://www.prsunotes.com>

OR

A project will cost Rs.40,000. Its stream of earnings before depreciation, interest and taxes (EBDIT) during the first year through five years is expected to be Rs.10,000, Rs.12,000, Rs.14,000, Rs.16,000 and Rs.20,000.

Assume a 50% tax rate and depreciation on straight line basis. Compute ARR of project.

Calculation of Average Income After Tax & Depreciation

Total Profit before Dep. and Taxes

(10000+12000+14000+16000+20000) 72,000

Average Income/Profit before Dep. & Taxes 14,400

Less : Depreciation $\left[\frac{\text{Cost} - \text{Scarp}}{\text{Life}} = \frac{40,000 - \text{Nil}}{5} \right]$ 8,000

Less : Taxes 50% 6,400

3,200

3,200

(i) Rate of Return taking Initial Investment (ROR) :

$$= \frac{\text{Average Annual Income}}{\text{Initial Investment}} \times 100 \quad \text{or} \quad \frac{(\text{OS} - \frac{\text{NI}}{n})}{\text{NI}} \times 100$$
$$= \frac{3,200}{40,000} \times 100 = 8 \%$$

(ii) Rate of Return taking Average Investment (ARR) :

$$= \frac{\text{Average Annual Income}}{\text{Average Investment}} \times 100 \quad \text{or} \quad \frac{(\text{OS} - \frac{\text{NI}}{n})}{\frac{\text{NI}}{2}} \times 100$$
$$= \frac{3,200}{20,000} \times 100 = 16 \%$$

Working Notes : Average Investment =

$$\frac{(\text{Cost of Investment} + \text{Scrap Value})}{2} = \frac{(40,000 + \text{Nil})}{2} = \text{Rs. } 20,000$$

5. What is motion study? Discuss its application. <http://www.prsunotes.com>

OR

"Work study is a powerful tool for improving productivity." Comment. Explain the components of work study.