STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2011-12)

SUBJECT CODE : 11CM/AC/PF24

B.C.A. DEGREE EXAMINATION APRIL 2012
SECOND SEMESTER

REG. No.________________

COURSE : ALLIED – CORE
PAPER : PRINCIPLES OF FINANCIAL MANAGEMENT
TIME : 30 MINS. MAX. MARKS : 30

SECTION – A
TO BE ANSWERED IN THE QUESTION PAPER ITSELF
ANSWER ALL QUESTIONS:

1. **FILL IN THE BLANKS : (10 Marks)**

a. Profit maximization objective ignores the __________ aspect of the benefits associated with the financial course of action.
b. ___________________ means that the value of a unit of money is different in different time periods.
c. Capital budgeting decisions pertain to __________________________.
d. _____________________ is excess of the summation of cash inflows over cash outflows.
e. The approach that measures the present value of returns per rupee invested is __________________
f. The variability of the actual returns from the expected returns in terms of cash flows is __________________.
g. _______________________ is the total of current assets.
h. _______________ is an important tool in cash management.
i. Financial management is concerned with ________________ decision resulting in acquisition and financing of funds.
j. ____________________________ equals current assets less current liabilities

k. **STATE IF THE FOLLOWING STATEMENTS ARE TRUE OR FALSE : (10 Marks)**

a. Financial management deals with raising of funds.
b. Financing decision involves provision of funds required at the right time.
c. Maximization of the net present value of a course of action is profit maximization.
d. The rate of return required by a firm depends on the risk involved.
e. Business risk is the variability in operating profit due to change in sales.
f. Management of current assets and liabilities is the objective of financial management.
g. Cash budget helps in coordinating the timings of cash needs.
h. Capital budgeting is the process of generating short term capital requirements
i. Working capital management is concerned with management of long term capital expenditure.
j. Cash management is a key aspect of working capital management.

k. CHOOSE THE CORRECT ANSWER : (10 Marks)

a. The basic objective of financial management is
   i. Maximisation of profits ii. Maximisation of shareholder's wealth
   iii. Minimisation of cost iv. Minimisation of loss

b. Which of the following is not the function of financial management
   i. Financing ii. Risk-management iii. Internal control iv. Capital budgeting.

c. While evaluating capital investment proposals , the time value of money is considered in case of :
   i. Pay-back method ii. Discounted cash flow method
   iii. Accounting rate of return method iv. None of the above

d. The technique of capital budgeting is used for :
   i. Evaluating short-term investment decisions.
   ii. Evaluating recurring expenditure decision
   iii. Evaluating the consistent dividend payment decision
   iv. Evaluating long-term investment decision

e. Capital budgeting decision is crucial and critical as it is :
   i. Irreversible decision ii. Profit maximizing decision
   iii. cost reduction decisions iv. wealth maximizing decisions

f. While evaluating investment proposals, the release of working capital at the end of the project life should be considered as :
   i. Cash inflow ii. Cash outflow
   iii. Has no effect on capital budgeting decisions iv. Capital cost

g. Gross working capital is :
   i. Total circulating capital ii. current assets less current liabilities
   iii. current asset financed by long term funds iv. Net working capital

h. operating cycle is the length of time required for :
   i. conversion of cash into raw materials
   ii. conversion of cash into inventories –to accounts receivable to cash
   iii. conversion of accounts receivable into cash
   iv. conversion of finished goods into accounts receivable

i. Which of the following factor is not a determinant of working capital requirement :
   i. Business cycle ii. Inventory policy iii. Credit policy iv. Dividend policy

j. The term time value of money means :
   i. Net present value ii. Present value of future cash flows
   iii. Cash Inflow iv. Discounted cash flow

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TIME : 2 ½ HOURS MAX. MARKS : 70

SECTION – B

ANSWER ANY FIVE QUESTIONS: (5 x 8 = 40)

1. What are the major financial management decisions that business firms take?

2. Explain and illustrate the methods of assessing working capital requirements.

3. Discuss the utility of cash budget as a tool of cash management. What are the steps involved in the construction of a cash budget.

4. A Limited borrows from a commercial bank Rs.10,00,000 at 12% rate of interest to be paid in equal annual end-of-year instalments. What would be the size of the instalment? Assume the repayment period is 5 years.

5. Mr.Ram wishes to commence a new trading business and gives the following information :
   Total estimated sales in a year will be Rs.12,00,000
   His expenses are estimated at a fixed expense of Rs.2,000 per month plus a variable expense equal to 5% of turnover.
   His sale price for each product will be 25% in excess of his cost of purchase.
   He expects to turnover his stock four times in the year.
   The sales and purchases will be evenly spread throughout the year. All sales will be for cash but he expects one month's credit for purchases.
   Calculate his estimated profit for the year and the average working capital.

6. A company is contemplating to purchase a machine. Two machines A and B are available, each costing Rs.5,00,000. In comparing the profitability of the machines, a discounting rate of 10% is to be used and machine is to be written off in 5 years by straight line method of depreciation with nil residual value. Cash inflows after tax are expected as follows :

Year	Machine A (Rs. in lakhs)	Machine B (Rs. in lakhs)
1	1.5	0.5
2	2.0	1.5
3	2.5	2.0
4	1.5	3.0
5	1.0	2.0

   Indicate which machine would be profitable using NPV method.

7. A firm which purchases raw materials on credit is required by the credit terms to make payments within 30 days. On its side, the firm allows its credit buyers to pay within 60 days. Its experience has been that it takes on an average 35 days to pay its creditors and 70 days to collect its debtors. Moreover 85 days elapse between the purchase of raw materials and the sale of finished goods. What is the firm's cash cycle and also estimate its cash turnover.

SECTION : C

ANSWER ANY TWO QUESTIONS 2 x 15 = 30

8. Exe Ltd. is considering the purchase of a machine. Two machines L and M are available each costing Rs.1,00,000. Both machines will last for five years with no residual value. In comparing the profitability of machines, a discount rate of 10% is to be used. Earnings after taxation at 40% and charging depreciation on straight line are expected to be as follows :

Year	Machine L	Machine M
1	Rs.10,000	loss Rs.10,000
2	20,000	10,000
3	30,000	20,000
4	10,000	40,000
5	Nil	20,000

Indicate which machine would be more profitable investment under the various methods of ranking investment proposals – Accounting Rate of Return, Pay back, Net present value and Profitability index.

Present value interest factor at 10% per annum :

Period	0	1	2	3	4	5
Factor	1.000	0.909	0.826	0.751	0.683	0.621

9. From the following information , prepare a cash budget of a business firm for the month of April :
   a. the firm makes 20% cash sales . Credit sales are collected 40% , 30% and 25% in the month of sales, month after and second month after sales respectively. The remaining 5% becomes bad debts.
   b. the firm has a policy of buying enough goods each month to maintain its inventory at two and one half times the following month's budgeted sales.
   c. the firm is entitled to 2% discount on all purchases if bills are paid within 15 days and the firm avails of all such discounts. Monthly purchases are made in two equal lots .
   d. cost of goods sold , without considering the 2% discount, is 50% of selling price. The firm records inventory net of discount.
   e. other data is :
      Sales : January –Rs.1,00,000, February –Rs.1,20,000, March –Rs.1,50,000, April –Rs.1,70,000 and May – Rs.1,40,000
   f. Inventory on March 31, Rs.2,25,400
   g. Cash on March 31, Rs.30,000
   h. Gross purchase in March Rs.1,00,000
   i. Selling, general and administrative expenses for April - Rs.45,000 including depreciation Rs.10,000.

10. From the following information, estimate the net working capital required for the project. Add 10% to your computed figure to allow for contingencies :
Estimated cost per unit of production is :
Material Rs.80
Labour Rs.30
Overhead Rs.60
Additional information:
Selling price Rs.200 per unit
Level of activity 1,04,000 units of production per annum
Raw materials in stock, average 4 weeks
Work in progress (assume 50% completion stage in respect of conversion costs and 100% completion in respect of materials) average 2 weeks
Finished goods in stock average 4 weeks
Credit allowed by suppliers average 4 weeks
Credit allowed to debtors average 8 weeks
Lag in payment of wages average 1.5 weeks
Cash at bank is expected to be Rs.25,000
You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis.

11. Write short notes on :
    a. Investment decisions
    b. Risk-return trade off
    c. Present Value
    d. Types of working capital

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