STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2008-09 & thereafter)

SUBJECT CODE : CM/AC/PF24

B.C.A. DEGREE EXAMINATION APRIL 2011
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: (30 x 1 = 30)

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

   a. The technique adopted to find the present value is called ________________.
   b. The aspect of financial decision making with reference to current assets is termed as ____________________.
   c. ___________________ decision in financial management involves provision of funds.
   d. The technique used to determine the compounded value of the present investment is __________________.
   e. The formula used for compounding of interest income is _________________.
   f. ____________________ is the chance of future loss that can be foreseen.
   g. Capital required for purchase of material is ____________________.
   h. The technique of long-term planning and its financing is termed as ______________________.
   i. __________________________ is the annual average yield on a project.
   j. The two components of working capital are _______________________.

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

   a. Financial management is concerned with management of funds.
   b. Profit maximization would mean maximization of the net present value of a firm.
   c. The value of money is time dependent.
   d. Compounding technique is concerned with determining the present value of future amount.
   e. Higher the risk greater is the expected return.
   f. No additional working capital will be required in case of an expansion of an existing project.
   g. Discounted cash flow technique takes into account the time value of money.
   h. Depreciation is considered while calculating the return on a project according to the Accounting Rate of Return method.
   i. Working capital requirements are financed by a combination of long-term and short-term sources.
   j. Cash budget is the most important tool in cash management.

3. CHOOSE THE CORRECT ANSWER : (5 Marks)

a. The only viable goal of financial management is :
1. Profit maximization
2. Wealth maximization
3. Sales maximization
4. Assets maximization

b. Finance function involves :
1. Procurement of finance
2. Expenditure of funds
3. Safe custody of funds
4. Procurement and effective utilization of finance.

c. While evaluating capital investment proposals, the time value of money is considered in case of :
1. Pay-back method
2. Discounted cash flow method
3. Accounting rate of return method
4. Internal rate of return method

d. The cash inflows on account of operations are presumed to have been re-invested at the cut-off rate in case of :
1. Pay-back method.
2. Profitability index method
3. Discounted cash flow method
4. Accounting rate of return method

e. Time value of money is :
1.Time preference for money
2. Present value of money
3. Compounded value of money
4.A unit of money

4. MATCH THE FOLLOWING : (5Marks)

a. Cash management	1. Financial planning
b Financial Management	2. Net present value
c. Discounted technique	3. Working capital
d. Return	4. Pay back period
e. Cash inflow	5. Income from investment

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PAPER	**:**	**PRINCIPLES OF FINANCIAL MANAGEMENT**
TIME	**:**	**2 ½ HOURS** **MAX. MARKS : 70**

SECTION – B

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

1. X wishes to commence a new trading business and gives the following information:
   a. The total estimated sales in a year will be Rs.12,00,000.
   b. His expenses are estimated at: fixed expense of Rs.2,000 per month plus a variable expenses equal to 5% of his turn over.
   c. He expects to fix a sale price for each product which will be 25% in excess of his cost of purchases.
   d. He expects to turnover his stock four times a year.
   e. 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: a. His estimated profit for the year.
   b. His average working capital requirement.

2. Using the information given below, compute the pay-back period under a. traditional Pay-back method and b. discounted Pay-back method :

Initial investment	Rs.80,000
Estimated life	5 years
Profit after tax :	Rs.
End of year 1	6,000
2	14,000
3	24,000
4	16,000
5	Nil

   Depreciation has been calculated under straight line method. The cost of capital may be taken at 20% p.a.

3. Set up an amortization schedule for Rs.5,000 loan to be repaid in equal installment's at the next there years at 15% interest.

4. Calculate the present value discounted at 10%, of receiving :
   a. Rs.800 at the end of 4 years
   b. Rs.200 at the end of 3 years and Rs.300 at the end of 5 years.
   c. Rs.500 at the end of year 4 and Rs.300 at the end of year 6.
   d. Rs. 500 a year for next 10 years.

5. A limited company is considering investing in a project requiring a capital out lay 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 at 20% on original cost and taxation at 50% of net income.

You are required to evaluate the project according to each of the following method :

a. Rate of return on original investment method.
b. Discounted cash flow method taking cost of capital as 10%
c. Profitability index method.

6. From the following information, compute the cash inflow for the month of April and May :

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.

The remaining 5% becomes bad debts.

Sales Jan.	Rs.1,00,000
Feb.	1,20,000
March	1,50,000
April	1,70,000
May	1,40,000

7. Write short notes on :
   a. Investment decision
   b. Risk return trade off
   c. Profit maximization
   d. Types of working capital

SECTION : C

ANSWER ANY TWO QUESTIONS 2 x 15 = 30

8. X ltd. sells its products on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year ended December 31, 2009 :

	Rs.
Sales at 3 month's credit	40,00,000
Raw materials	12,00,000
Wages paid- 15 days in arrears	9,60,000
Manufacturing expenses paid- 1 month in arrears	12,00,000
Administrative expenses paid- 1 month in arrears	4,80,000
Sales promotion expenses payable half yearly in advance	2,00,000

The company enjoys one month credit from the suppliers of raw materials and maintains 2 month's stock of raw material and one and half months finished goods. Cash balance is maintained at Rs.1,00,000 a precautionary balance, assuming a 10% margin. Find out the working capital requirement of X Ltd.

9. E Ltd. is considering the purchase of a machine. Two machines X and Y 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 basis are expected to be as follows :

Year	X Rs.	Y Rs.
1	10,000	loss 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 a more profitable investment under the various methods of ranking investment proposal – ARR, Pay back, NPV, and profitability index methods.

10. Prepare a cash budget of R Ltd. for April to June 2009 :

Month	Sales Rs.	Purchases-Rs.	Wages –Rs.	Expenses-Rs.
Jan.	80,000	45,000	20,000	5,000
Feb.	80,000	40,000	18,000	6,000
March	75,000	42,000	22,000	6,000
April	90,000	50,000	24,000	7,000
May	85,000	45,000	20,000	6,000
June	80,000	35,000	18,000	5,000

Additional information :

a. 10% of the purchases and 20% of the sales are for cash.
b. The average collection period of the company is ½ month and the credit purchases are paid regularly after one month.
c. Wages are paid half monthly and the rent of Rs.500 included in expenses is paid monthly.
d. Other expenses are paid after one month lag.
e. Cash balance on April 1, 2009 may be assumed to be Rs.15,000.

11. a. A is about to retire. His company has given him two options :
   i. A lump sum of Rs.20,000
   ii. An annuity of Rs.2,500 for 10 years.

   Which is the better option for A, if an interest rate of 6% is used for the annuity?

   b. A machine costs Rs.3,00,000 and its effective life is estimated to be 6 years. A sinking fund is created for replacing the machine at the end of its effective life time when its scrap realizes a sum of Rs.20,000. Calculate the amount which should be provided every year if the interest at 8% compounded annually.

   c. A bond with a face value of Rs.5,000 matures at the end of 5 years, the rate of interest on the bond being 15% p.a. paid annually. Find the present value of the bond so as to yield a return of 10% p.a.

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