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

SUBJECT CODE : 11CM/AC/PF24
B.C.A. DEGREE EXAMINATION APRIL 2013
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:
CHOOSE THE BEST ANSWER:

1. The modern approach to financial management relates to
   a) Financing ,investment and dividend decision
   b) investment, financing, and asset management
   c) financing and dividend decision
   d) capital budgeting, cash management, and credit management

2. The basic objective of Financial Management is
   a) Maximisation of profits
   b) Maximisation of share holders wealth
   c) Ensuring financial discipline
   d) Minimisation of cost

3. Time value of money is one of the central ideas in finance due to
   a) Involvement of cash receipts or payment over a period of time
   b) ascertainment of profits for a future period of time
   c) Valuation of assets for a definite future period future
   d) Maximisation of future profit

4. The operating cycle means
   a) the accounting period of the business
   b) the time gap between sales and its realisaton in cash
   c) the period for which business expenses have been incurred
   d) the lift cycle of the business

5. "Working Capital" means
   a) Total assets
   b) fixed assets
   c) current assets
   d) current assets minus current liabilities

6. In capital budgeting the time value of money is considered in case of
   a) Pay back period
   b) Discounted cash flow method
   c) Accounting rate of return method
   d) Net profit method

7. A capital investment is one that
   a) Has the prospect of long-term benefits
   b) has the prospect of short-term benefits
   c) is only undertaken by large corporations
   d) applies only to investment in fixed assets

8. Cash management refers to management of
   a) cash only
   b) cash and bank balance
   c) cash and current assets
   d) cash and fixed assets

9. Cash budget is a significant device for planning and controlling
   a) the use of cash
   b) investment in market able securities
   c) cash inflow
   d) cash out flow

10. Money has time value because:
    a) Money today is more certain than money tomorrow.
    b) Money today is worth more than money tomorrow in terms of purchasing power.
    c) There is a possibility of earning risk free return on money invested today.
    d) All of the above.

FILL IN THE BLANKS:

11. Financial Management is concerned with efficient use of ___________________.
12. The liability which should be paid within a period of one year is known as _________________.
13. The time period required for the conversion of raw materials into finished goods ___________________.
14. Payout of regular dividend increases _________________.
15. Time value of money is a vital consideration in _________________.
16. An annuity which requires the computation of a constant return forever is called ________________.
17. ________________ decisions require comparison of cost against benefits over a long period.
18. Working capital is also known as _________________.
19. A positive working capital will arise when current assets exceeds______________.
20. Net present value is _________________.

STATE IF THE FOLLOWING STATEMENTS ARE TRUE OR FALSE :

21. Annuity tables can be used for all kinds of cash flows.
22. Perpetuity and annuity are 2 different concepts.
23. There is a direct relationship between risk and return.
24. Financial risk refers to change in operating profit due to change in sale.
25. Capital budgeting is concerned with working capital management.
26. Pay-back method ignores time value of money.
27. The funds required for permanent working capital should be provided by Reserve Bank of India.
28. Nature of business determines the working capital requirement of a time.
29. Cash management is a trade of between the cost of carrying cash and the need for maintaining liquidity.
30. A large cash balance is required to meet all contingencies.

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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. Calculate discounted pay-back period from the details given below:
Cost of the project-Rs 6,00,000;Life of the project-5 years; Annual cash inflow Rs 2,00,000;cut-off rate-10%

Year	1	2	3	4	5
Discounting Factor	0.909	0.826	0.751	0.683	0.621

2. From the given below, prepare a cash budget for June 2010.
Selling price per unit Rs. 50
Purchase price per unit Rs. 40
Sales during May and June where 200 & 300 units respectively. 50% of sales are on cash basis & balance is at 1 month's credit. Selling expenses are Rs. 1000 per month. Cash balance on 1st June was Rs. 12,000.

3. a. Given the time value of money as 12%. You are required to calculate the present value of future cash flows that will be received over the next four years.

Year	**Cash flows (Rs.)**
1	1,000
2	2,000
3	5,000
4	7,000

b. ABC Ltd has borrowed Rs 10,000 to be repaid in equal instalments at the end of each of the next three years. The interest rate if 15%. Prepare a loan amortization schedule.

4. Rose Ltd is engaged in customer retailing. You are required to estimate its working capital requirements from the following data.

Projected annual sales	Rs. 9,00,000
Percentage of net profit to cost of sales	20%
Average credit allowed to debtors	1 month
Average credit allowed by creditors	2 months
Average stock carrying in (terms of sales requirements)	2 ½ months

Add 10% to allow for contingencies

5. Mahindra Ltd purchases and sells goods entirely on credit basis. The credit period allowed to it by suppliers is 45 days and firm allows 60 days to its customers. However, in actual practice, the average age of accounts payables is 60 days and the average age of account receivables is 70 days. The average age of firm's inventory is 80 days.
   Required:
   (i) Calculate the firms cash cycle
   (ii) Determine cash turnover assuming 360 days in a year.

6. ABC chemical company is considering two alternative methods of processing a chemical product for future commercial use. Equipment costs for both will be evenly depreciated over a 20 year period.

	Initial Cost	**Annual Income**
Equipment A	12 lakhs	Rs. 90,000
Equipment B	15 lakhs	Rs. 1,35,000

   If they are ranked by the average rate of return method which equipment is preferable.

7. From the following extracted from the books of a manufacturing company, compute the operating cycle in days.
   Period covered: 365 days
   Average period of credit allowed by suppliers: 16 days

	Rs.
Average total of debtors outstanding	4,80,000
Raw materials consumption	44,00,000
Total production cost	1,00,00,000
Total cost of sales	1,05,00,000
Sales for the year	1,60,00,000
Value of Average stock maintained:	
Raw materials	3,20,000
Work-in-progress	3,50,000
Finished goods	2,60,000

SECTION : C

ANSWER ANY TWO QUESTIONS 2 x 15 = 30

8. Calculate the maturity amount if Rs.2,00,000 is invested for 2 years at 12% compounded - a) annually b) semi-annually c) quarterly d) monthly

9. X Co. desires to purchase a business and has consulted you and one point on which you are asked to advise them is the average amount of working capital which will be required in the first year's working.
   You are given the following estimates and are instructed to add 10% to your computed figures to allow for contingencies.

	Figure for the year (Rs.)
(i) Average amount locked up in stocks	
Stock of finished goods	5,000
Stock of stores and materials	8,000
(ii) Average credit given:	
Inland sales – 6 weeks	3,12,000
Export sales – 1 ½ weeks	78,000
(iii) Lag in payment of wages and other outgoings:	
Wages – 1 ½ weeks	2,60,000
Stores, materials etc – 1 ½ months	48,000
Rent, royalties etc – 6 months	10,000
Clerical staff salary – ½ month	62,400
Manager salary – ½ month	4,800
Miscellaneous expenses 1 ½ months	48,000
(iv) Payment in advance	
Sundry expenses (paid quarterly in advance)	8,000
(v) Undrawn profits on the average throughout the year	11,000

Set up your calculation for the average amount of working capital required.

10. Prepare a cash budget for the three months ended 30th Sept. 1998 based on the following information:
Cash at bank on 1.7.98 Rs.25,000
Monthly salaries and wages (estimated) Rs.10,000
Interest payable in August 1998 Rs.5,000

Estimated	June	July	August	September
Cash sales (actual)	1,20,000	1,40,000	1,52,000	1,21,000
Credit sales	1,00,000	80,000	1,40,000	1,20,000
Purchases	1,60,000	1,70,000	2,40,000	1,80,000
Other expenses	18,000	20,000	22,000	21,000

Credit sales are collected 50% in the month of sale and 50% in the month following. Collections from credit sales are subject to 10% discount if received in the month of sale and to 5% if received in the month following. 10% of the purchases are in cash and balance is paid in the next month.

11. One plant of a company is doing poorly and is being considered for replacement. Three mutually exclusive plants X, Y and Z have been proposed. The plants are expected to cost Rs.1,00,000 each and have an estimated life of 5 years, 4 years and 3 years respectively and have no salvage value. The company's required rate of return is 10%. The anticipated cash flows after tax for the three plants are as follows:

Year	Plant X Rs.	Plant Y Rs.	Plant Z Rs.
1	25,000	40,000	50,000
2	25,000	40,000	50,000
3	25,000	40,000	5,000
4	25,000	15,000	-
5	95,000	-	-

Rank the proposals applying the methods of payback, ARR and NPV.

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