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 2014
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:

I FILL IN THE BLANKS **(1x10=10)**

1. __________ trade off is the basic dimension of any financial decision.
2. The basic objective of Financial Management is ____________.
3. Various valuation concepts of money is basically based on the fact that money has ________.
4. The basic objective of working capital management is to manage the firm's __________ and ______________ effectively .
5. The return after the pay off period is not considered in case of ________.
6. The time gap between sales and its realisaton in cash is known as ________.
7. Current assets minus Current liabilities is ________.
8. ______________ incorporates all cashflows of a proposal.
9. _____________ is one of the motives of holding cash.
10. Inventory is part of ____________ assets.

II STATE IF THE FOLLOWING STATEMENTS ARE TRUE OR FALSE: **(1x10=10)**

11. Financial management and financial accounting are essentially the same.
12. Efficient management of every business is closely linked with efficient management of its finances
13 .Time value of money is an essential consideration in financial decision making.
14. Internal rate of return determines the maximum rate of interest that a firm can afford to pay on the borrowings for a particular project.
15. Capital budgeting is the process of generating short term capital requirements.

16. Cost of capital is the basic data for NPV technique.

17. Business risk is the variability in operating profit due to change in sales.

18. Time preference for money prevails because the worth of money in hand is more than the same amount when received after a particular time period.

19. Working capital management is concerned with management of long term capital expenditure.

20. The investment, financing and dividend decisions are not related to share value of the firm.

III CHOOSE THE CORRECT ANSWER: (1x10=10)

21. Finance function involves :
    a. Procurement of finance
    b. Expenditure of funds
    c. Safe custody of funds
    d. Procurement and effective utilization of finance.

22. The only clear goal of financial management is :
    a. Profit maximization
    b. Wealth maximization
    c. Sales maximization
    d. Assets maximization

23. In his traditional role the finance manager is responsible for
    a. Arrangement and efficient utilization of funds
    b. Arrangement of financial resources
    c. Acquiring capital assets for the organization
    d. None of the above

24. Time value of money is :
    a. Time preference for money
    b. Present value of money
    c. Compounded value of money
    d. A unit of money

25. Permanent working capital refers to
    a. Excess of current assets over current liabilities
    b. Firms investment in total current assets or circulating capital
    c. The minimum amount of investments in core current assets
    d. Additional current assets required permanently.

26. While evaluating capital investment proposals , the time value of money is considered in the case of
    a. Pay back method
    b. Discounted cash flow method
    c. Accounting rate of return method
    d. None of the above

27. Acquisition of additional fixed assets to increase production will
    a. Increase the working capital
    b. Decrease the working capital
    c. Proportionately increase or decrease
    d. None of the above

28. Cost benefit index
    a. PI
    b. Debt-equity
    c. Discounted cash flow technique
    d. Lock-box

29. 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

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

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SECTION – B

ANSWER ANY FIVE QUESTIONS: 5 x 8 = 40

1. a. ABC Ltd has borrowed Rs 10,000 to be repaid in equal installments at the end of each of the next three years. If the interest rate is 15%.
Prepare a loan amortization schedule.
b. Sun Industrial Ltd. offers 14% interest on fixed deposits. What is the effective rate of interest if compounding is done a. Half-yearly b. Quarterly and c. Monthly

2. From the information 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 were 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. X Company is considering two mutually exclusive projects. Both require an initial cash outlay of Rs.1,00,000 each and have life of 5 years. The cost of capital is 10% and tax rate is 50%. The project will be depreciated on a Straight Line Method. The expected cash inflow before depreciation from the projects are as follows:

Projects	Years				
	1	2	3	4	5
1	60,000	60,000	60,000	60,000	60,000
2	80,000	50,000	40,000	70,000	70,000
P.V@ 10%	.909	.826	.751	.683	.621

Compute NPV

4. The management of ABC Ltd. has to choose from Machine X and Machine Y. X has a cost of Rs.75,000 and expected to last for 6 years with no salvage value. Y has a cost of Rs.50,000, expected life of 6 years and no salvage value at end. The annual cash flows generated by the machines are Rs.20, 000 and Rs.15,000 respectively. If the firm's required rate of return is10%, determine IRR of each machine.

5. Calculate the present value discounted at 10%, of receiving :
   a. Rs.8000 at the end of 4 years
   b. Rs.2000 at the end of 3 years and Rs.3000 at the end of 5 years.
   c. Rs.5000 at the end of 4 years and Rs.3000 at the end of 6 years.
   d. An annuity of Rs 5000 for 8 years.

6. From the following data, compute the operating cycle of a firm:

Credit sales	Rs.7,20,000 per annum
Cost of goods produced	Rs.5,40,000 per annum
Cost of goods sold	Rs.6,30,000 per annum
Cost of raw material consumed	Rs.1,80,000 per annum
Average stock of raw material	Rs.8,000
Average stock of work in progress	Rs.4,500
Average stock of finished goods	Rs.17,500
Average debtors	Rs.40,000

Creditors payment period is 8 days. Assume a year has 360 working days.

7. "The goal of financial management is wealth maximization". Explain.

SECTION : C

ANSWER ANY TWO QUESTIONS **2 x 15 = 30**

8. AB Ltd. provides following particulars relating to its working.

	Amount per unit
Raw material	Rs.84
Direct labour	36
Variable overheads	36
Total cost	156
Profit	44
Selling price	200

Average amount of stock:

Raw material	1 month
Work in progress (50% complete)	0.5 month
Finished goods	1 month
Credit allowed by suppliers	1 month
Credit allowed to customers	2 months
Average time lag in payment of wages	6 weeks
Average time lag in payment of overhead expenses	1.5 months
Required cash in hand and cash at Bank	Rs.3,00,000

25% of the output is sold for cash.

For an expected sale of 1,00,000 units, work out the working capital requirement for the year.

9. An engineering Company is considering the purchase of a new machine for its immediate expansion programme there are two possible machines suitable for the purpose.

Particulars	**M1 (Rs.)**	**M2 (Rs.)**
Capital Cost	3,00,000	3,00,000
Sales	5,00,000	4,00,000
Direct material	40,000	50,000
Direct labour	50,000	30,000
Factory overheads	60,000	50,000
Administration cost	70,000	10,000
Selling cost	10,000	10,000
The life of machine	2 years	3 years
Scrap value	40,000	25,000
Tax	50%	50%

Calculate the payback period of each machine.

10. From the following forecasts of income and expenditure, prepare a Cash budget for the four months January to April 2014:

Months		Sales	Purchases	Wages	Manufacturing expenses	Administrative expenses	Selling expenses
Rs.		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
2013	Nov	95,000	50,000	3,000	1,150	1,060	500
	Dec	90,000	66,000	3,200	1,225	1,040	550
2014	Jan	1,00,000	68,000	2,500	990	1,100	700
	Feb	1,50,000	72,000	3,000	1,050	1,150	620
	Mar	1,26,000	82,500	2,400	1,100	1,220	570
	Apr	1,52,000	95,000	2,600	1,200	1,180	710

Additional information:

a. 50% sales are collected in the same month and the balance in equal installments in the two subsequent months.
b. A dividend of Rs.10,000 is payable in April
c. 25% of purchases are paid in the same month and the balance in the next month.
e. 50% of Wages are paid in the same month and the balance next month.
f. Lag in payment of Administrative and selling expenses is 1 month.
g. Cash balance on 1.1.2014 – Rs.2,24,000.

11. A limited company is considering investing in a project requiring a capital out lay of Rs.2,00,000. The 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 methods :

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

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