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

SUBJECT CODE : **CM/AC/PF24**

B.C.A. DEGREE EXAMINATION APRIL 2009
SECOND SEMESTER

REG. No.________________

COURSE	:	**MAJOR – 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)

I STATE WHETHER TRUE OR FALSE:

1. In financial management, the objective of financial manager is profit maximization.
2. Financial management refers to financial accounting are essentially same.
3. Financial management and financial decision making.
4. Time value of money is an essential consideration in financial decision making.
5. Profit maximization and wealth maximization are essentially the same thing.
6. Over last few decades, the scope of financial management has broadened.
7. The basic objective of financial manager is the maximization of wealth of shareholders.
8. Financial management interacts with other departments of the firm and determines the future growth of the firm.
9. The investment, financing and dividend decisions are not related to share value of the firm.
10. Cost of capital is basic data for NPV technique.

II FILL IN THE BLANKS:

11. ______________ trade off is the basic dimension of any financial decision.

12. Liquidity decision is ___________________

13. _______________ incorporates all cashflows of a proposal.

14. Pay back period ______________ time value of money.

15. Investment Decision is concerned with ________________ mix decision.

16. Inventory is part of _____________ assets.

17. EPS measures ___________________

18. Effect of Sales on EBIT is _______________________

19. __________________ __________________ are concepts of working capital.

20. ______________ is one of the motives of holding cash.

III MATCH THE FOLLOWING:

21.	Cost of capital	a) Future value
22.	Time value of money	b) Current Assets
23.	NPV	c) wealth of shareholders
24.	Financing function	d) market price of the share
25.	PI	e) Debt-equity
26.	Equity share capital	f) cost benefit index
27.	Planning	g) the opportunity cost
28.	Lock-box	h) discounted cashflow technique
29.	Liquidity	i) cheque
30.	Share value	j) Cash budget

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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. Mr.X deposits Rs.2,000 at the end of every year for 5 years in his saving account paying 5 percent interest compounded annually. He wants to determine how much sum of money he will have at the end of the 5^{th} year.

2. 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 is 10%, determine IRR of each machine.

3. A company plans to buy a machine of an investment of Rs.10 lakh. The machine has a life of 5 years and will have a scrap value of Rs.2 lakhs, Machine is expected to earn the following profits before depreciation

Year	Rs.
1	2,00,000
2	5,00,000
3	6,00,000
4	4,00,000
5	3,00,000

If the tax rate is 50% and the cost of capital is 10%, determine (a) Pay back method, (b) ARR.

4. The ALPHA Company Ltd., is considering the purchase of new machine. Two alternative (A&B) have been suggested each costing Rs.4,00,000. Earning after taxation but before depreciation are expected to be as follows:

Year	Cashflow Machine A Rs.	Cashflow Machine B Rs.
1	40,000	1,20,000
2	1,20,000	1,20,000
3	1,60,000	1,20,000
4	2,40,000	1,20,000
5	1,60,000	1,20,000

The company has a target of return of capital 10%. You are required to calculate, Profitability Index.

5. S. Ltd., is considering the purchase of a new machine, which would carry out some operations at present performed by manual labour. The two alternative models under consideration are X and Y. The following information regarding the machine is available.

	Machine X (Rs.)	Machine Y (Rs.)
Cost of machine	1,50,000	2,50,000
Saving per annum		
In scrap	10,000	15,000
In wages	90,000	1,20,000
Additional cost per annum		
For supervision	12,000	16,000
For maintenance	7,000	11,000
For indirect material	6,000	8,000

The estimated life of each machine is 10 years and tax rate is 50%. Recommend the machine to be purchased using 'pay back' method.

6. Prepare a cash budget for the month of May, June and July 2004 on the basis of following information.

Months	Sales	Credit purchases	Wages	Overheads
	Rs.	Rs.	Rs.	Rs.
March	80,000	36,000	9,000	10,000
April	82,000	38,000	8,000	9,000
May	85,000	33,000	10,000	12,000
June	78,000	35,000	8,500	9,000
July	80,000	39,000	9,500	10,500

Additional information:

i) Cash balance on 1st May 2004 is Rs.8,000

ii) Cash sales is 25% of sales

iii) Period of credit allowed by suppliers, two months and to customers, one month

iv) Lag in payment of wages, one month.

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

SECTION – C

ANSWER ANY TWO QUESTIONS: (2 x 15 = 30)

8. Critically evaluate Capital budgeting appraisal methods.

9. Prepare monthly cash budget for six months beginning April, 2005 on the basic of the following information.

i) Estimated monthly sales are as follows:

January	Rs.1,00,000	June	Rs.80,000
February	1,20,000	July	1,00,000
March	1,40,000	August	80,000
April	80,000	September	60,000
May	60,000	October	1,00,000

ii) Wages and Salaries are estimated to be payable as follows:

April	Rs.9,000	July	Rs.10,000
May	8,000	August	9,000
June	10,000	September	9,000

iii) Of the sales, 50% are on credit and 50% for cash. The credit sales are collected within one month.

iv) Purchases amount to 80% of sales and are paid with 1 month credit.

v) The firm is to make an advance payment of tax of Rs.5,000 in July 1999.

vi) The firm had a cash balance of Rs.20,000 on April 1,1999.

10. 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 cash inflow before depreciation expected 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 and Pay back period.

11. 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 month
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 sold for cash.

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

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