STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2015 – 2016 and thereafter)

SUBJECT CODE: 15CM/AC/PF35

B.A DEGREE EXAMINATION NOVEMBER 2018
BRANCH IV – ECONOMICS
THIRD SEMESTER

COURSE	**:**	**ALLIED – CORE**
PAPER	**:**	**PRINCIPLES OF FINANCIAL MANAGEMENT**
TIME	**:**	**3 HOURS** — **MAX. MARKS: 100**

SECTION – A

ANSWER ALL QUESTIONS: (10 x 2 = 20)

1. Define the term financial management.
2. What is Capital Budget?
3. What is time value of money?
4. Banu has deposited Rs.50,000 in IOB. Interest is compounded at 6% p.a. for 3 years. Compute the amount of maturity.
5. What is working capital?
6. Calculate Operating cycle from the following data:

Stock holding:	Raw materials	: 2 months
	W.I.P	: 15 days
	Finished goods	: 1 month
	Average debt collection	: 2 months
	Average payment period	: 45 days

7. Give the meaning of cash.
8. Ascertain cash paid in June 2018:
   Purchases:

April	Rs. 60,000
May	Rs. 75,000
June	Rs. 50,000

   Credit terms: purchases are 50% on cash basis and the balance payable after a lag of Two months.
9. A project cost Rs.2,50,000 and yields an annual cash inflow of Rs.50,000 for 7 years. Calculate its pay – back period.
10. Calculate optimum cash balance under Baumol model

Annual cash requirement	Rs 1,50,000;
Fixed cost per transaction	Rs 15
Interest on securities	18%

SECTION – B

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

11. Explain the objectives of financial management.
12. a) Calculate the present value of Rs.2,00,000 to be received after 7 years at 10% compounded annually.
    b) A project costs Rs.15,60,000 and yields annually a profit of Rs.2,70,400 after depreciation of 12% p.a but before tax at 25%.
    Calculate pay – back period.

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

Projected annual sales	- Rs.6,50,000
Percentage of the Net profit to cost of sales	- 25%
Average credit allowed to debtors	- 10 weeks
Average credit allowed by creditors	- 4 weeks
Average stock carrying	- 8 weeks.

Allow 20% for Contingencies.

14. A ltd has an annual cash outflow of Rs 1 lakh arising uniformly during the year. It plans to meet these demands for cash by periodically selling its marketable securities. Firms marketable securities are invested to earn 5%. Transaction cost for converting investments is Rs 100.
    a. Use Baumol model to find out the optimal transaction size for transfer from marketable securities to cash
    b. What will be the company's average cash balance
    c. How many transfers per year will be required
    d. What is the time interval between two transfers
    e. What will be total transaction cost and interest cost during the year?

15. The initial cash outlay of a project is Rs.60,000
Estimated cash inflows:

1^{st} year	Rs.25,000
2^{nd} year	Rs.30,000
3^{rd} year	Rs.20,000
4^{th} year	Rs.15,000

Compute Net Present Value and profitability index taking the cut off rate as 10%.
The cost of the capital is 10%. Present value is Year:

	1	2	3	4
P.V.factor @ 10%.	0.909	0.826	0.751	0.683

16. What are the motives of holding cash?

17. From the following forecasts of cash flows prepare a cash budget of XYZ Ltd. for the year 2008.

	Rs.
Opening balance of cash on 1.1.2008	5,000
Cash sales	25,000
Receipts from debtors	40,000
Cash purchases	15,000
Payment to creditors	18,000
Payment of operating expenses	7,000
Income from Dividend	4,000

SECTION – C

ANSWER ANY TWO QUESTIONS: (2 x 20 = 40)

18. Find out average amount of working capital requirement.

Amount locked up in stock:

Stock of finished goods	Rs.10,000
Stock of material	Rs. 8,000

Average credit given:

Local sales (2 weeks credit)	Rs.1,04,000
Outside state sales (6 weeks credit)	Rs.3,12,000

Time available for payments:

For purchase (4 weeks)	Rs.78,000
For wages (2 weeks)	Rs.2,60,000

Add 10% to allow for contingencies.

19. A choice to be made between two projects which requires an equal investment of Rs.50,000 and are expected to generate net cash flows as under:

Particulars	**Project I Rs.**	**Project II Rs.**
End of year 1	25,000	10,000
End of year 2	15,000	12,000
End of year 3	10,000	18,000
End of year 4	NIL	25,000
End of year 5	12,000	8,000
End of year 6	6,000	4,000

The cost of the capital is 10%. Present value is Year:

	1	2	3	4	5	6
P.V.factor @ 10%.	0.909	0.826	0.751	0.683	0.621	0.564

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

(a) Payback period.

(b) NPV method taking cost of capital as 10%.

20. XYZ company wishes to arrange O.D. facilities with its bankers during the period April – June, when it will be manufacturing mostly for stock.

i. Prepare cash budget for the above period from the following data.

Months	Sales Rs.	Purchases Rs.	Wages Rs.
February	1,80,000	1,24,000	12,000
March	1,92,000	1.44,000	14,000
April	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

ii. 50% of credit sales is realized in the month following the sale and the other 50% in the second month following. Creditors are paid in the month following the month of purchase.

iii. Wages are paid at the end of the respective month

iv. Cash at bank – 1st April – Rs.25,000.

21. a. Anitha has deposited Rs. 1,50,000 in a fixed deposit for 6 years at 6% compound rate of interest. How much can she withdraw each years to have no balance in the account at the end of 6th year? You may use compound value table.

b. Briefly explain the determinants of working capital requirements.

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