



RB-4991

P. G. Diploma in Financial Service Examination
April / May – 2010
Financial Management : Paper - I

Time : 3 Hours]

[Total Marks : 70

Instructions :

(1)

नीचे दर्शाविए निशानीवाणी विगतो उत्तरवही पर अवश्य कभवी.
Fillup strictly the details of signs on your answer book.

Seat No. :

Name of the Examination :
P. G. DIPLOMA IN FINANCIAL SERVICE

Name of the Subject :
FINANCIAL MANAGEMENT - 1

Subject Code No. : 4 9 9 1 Section No. (1, 2,.....) : NIL

Student's Signature

- (2) Figures to the right indicate full marks of the question.
(3) State clearly the option you choose.

1 Assume that a firm has owners' equity of Rs. 10,00,000/-. 12

The ratios for the firm are:

- Current debt to total debt 0.40
Total debt to owner's equity 0.60
Fixed assets to owners' equity 0.60
Total assets turnover 2 times
Inventory turnover 8 times

Complete the following balance sheet, given the information above.

Liabilities	Amount	Assets	Amount
Curret debt (a) ?	---	Cash (a) ?	---
Long Term Debt (b) ?	---	Inventory (b) ?	---
Total Debts (a) + (b)		Total Current	
Owner's equity (c) ?	---	assets (a) + (b)	
Total Capital (a+b+c)		Fixed Assets ? (c)	---
		Total Assets (a+b+c)	

OR

1 On 1st January, the Managing Director of Naureen Ltd. 12 wishes to know the amount of working capital that will be required during the year. From the following information prepare the working capital requirements forecast. Production during the previous year was 60,000 units. It is planned that this level of activity would be maintained during the present year. The expected ratios of the cost selling prices are raw materials 60%, direct wages 10% and overheads 20%. Raw materials are expected to be remain in store for an average of 2 months before issue to the production. Each unit is expected in process for one month, the raw materials being fed into the pipeline immediately and the labour and overhead costs accruing evenly during the month. Finished goods will stay in the warehouse awaiting dispatch to customers for approximately 3 months. Credit allowed by creditors is 2 months from the date of delivery of the raw materials. Credit allowed to debtors is a 3 months from the date of dispatch. Selling price is Rs. 5 per unit. There is a regular production and sales cycle. Wages and overheads are paid on the 1st of each month for previous month. The company normally keeps cash in hand to the extent of Rs. 20,000.

2 Alpha Limited is considering five capital projects for the 12 years 2000, 2001, 2002 and 2003. The company is financed by equity entirely and its cost of capital is 12%. The expected cash flows of the projects are as follows :

Year and Cash flows (Rs. '000)

Project	2000	2001	2002	2003
A	(70)	35	35	20
B	(40)	(30)	45	55
C	(50)	(60)	70	80
D	--	(90)	55	65
E	(60)	20	40	50

Note : Figures in brackets represent cash outflows

All projects are divisible i.e. size of investment can be reduced, if necessary in relation to availability of funds. None of the projects can be delayed or undertaken more than once.

Calculate which project Alpha Limited should undertake if the capital available for investment is limited to Rs. 1,10,000 in year 2000 and with no limitation in subsequent years. For your analysis, use the following present value factors :

Year	2000	2001	2002	2003
Discounting factor	1.00	0.89	0.80	0.71

OR

- 2 Using the information given below, compute the pay-back period under (a) Traditional Pay-Back method, and (b) Discounted Pay Back method and (c) Discounted cash flow method taking cost of capital at 10% and 20%. 12

Initial Outlay Rs. 80,000

Estimated Life 5 years

Profit after tax

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. and the P.V. of Re. 1 at 20% p.a is given below.

Year	1	2	3	4	5
P.V.Factor	.83	.69	.58	.48	.40

- 3 From the following Balance Sheet of X Ltd. Prepare a Cash Flow Statement. 12

Liabilities	2001 Rs.	2002 Rs.	Assets	2001 Rs.	2002 Rs.
Equity Share Capital	30,000	35,000	Goodwill	10,000	8,000
General Reserve	10,000	15,000	Machinery	41,000	54,000
Profit and Loss A/c	6,000	7,000	10% Investments	3,000	8,000
10% Debentures	15,000	25,000	Stock	4,000	5,500
Sundry Creditors	7,500	11,000	Debtors	8,000	19,000
Bills Payable	1,000	1,500	Cash and Bank		
Provision for Depreciation On Machinery	9,000	13,000	Balance	12,000	13,000
			Discount on Debentures	500	--
	78,500	1,07,500		78,500	1,07,500

Additional Information : Investments costing Rs. 3,000 were sold for Rs. 2,800 during the year 2002. A new machine was purchased for Rs. 13,000.

OR

- 3 Prepare monthly cash budget for six months beginning from April 2006 on basis of the following information 12

(i) Estimated monthly sales are as follows :

	Rs.		Rs.
January	1,00,000	June	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 :

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

- (iii) Of the sales, 80% is on credit and 20% for cash. 75% of credit sales are collected within-one month and balance in two months. There are no bad debt losses.
- (iv) "Purchases amount to 80% of sales and are made and paid for in month preceding the sales.
- (v) The firm has 10% debentures of Rs. 1,20,000. Interest on these has to be paid quarterly in January, April and so on.
- (vi) The firm is to make an advance payment of tax of Rs. 5,000 in July 2006.
- (vii) The firm had cash balance of Rs. 20,000 on April 1, 2006 which is the minimum desired level of cash balance. Any cash surplus/deficit above/below this level is made up by temporary investment/liquidation of temporary investment or temporary borrowing at the end of each month (interest on these to be ignored).

- 4 The shares of chemical company are selling at Rs. 20 per share. The firm had paid dividend @ Rs. 2 per share last year. The estimated growth of company is approximately 5% per year. 12
- (i) Determine the cost of equity capital of company.
- (ii) Determine the estimated market price of the equity share if anticipated growth rate of firm (a) rises to 8%, (b) fall to 3%.

OR

- 4 The following information has been extracted from the balance sheet of Fashions Ltd. as on 31.12.2009 12

	Rs. Lakhs
Equity	400
12% Debentures	400
Term Loan (Interest 18%)	<u>1,200</u>
Total	<u>2,000</u>

- (a) Determine the weighted average cost of capital of the company. It had been paying dividend at a consistent rate of 20% p.a.
- (b) What difference will it make if the current market price of the Rs. 100 share is Rs. 160?
- (c) Determine the effect of Income Tax on the cost of capital under both premises.
- 5 A firm's details are as under :
- | | |
|------------------------------|---------------|
| Sales (@ 100 per unit) | Rs. 12,00,000 |
| Variable Cost | 50% |
| Fixed Cost | Rs. 5,00,000 |

It has borrowed Rs. 5,00,000 @ 10% p.a. and its equity share capital is Rs. 5,00,000 (Rs. 100 each) Calculate :

- (a) Operating Leverage
- (b) Financial Leverage
- (c) Combined Leverage
- (d) Return on Investment
- (e) If the sales increased by Rs. 3,00,000 what will be new EBIT?

OR

5 Explain in detail various types of Leverages.

6 Write short notes : (any **two**)

10

- (a) GDRs
 - (b) Debt Securitisation
 - (c) Liquidity Ratio
 - (d) Commercial Paper.
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