(e) From the following details, prepare the Balance Sheet of the firm concerned—

Stock velocity	—	6
Capital turnover ratio	—	2
Fixed assets turnover ratio	—	4
Gross Profit	—	20%
Debt collection period	—	2 months
Creditors payment period	—	73 days

The gross profit was Rs. 60,000, closing stock was Rs. 5,000 in excess of the opening stock.

Note— Stock velocity, Capital turnover ratio and Fixed assets turnover ratio are based on cost of goods sold.

PART—C

3. Attempt *any two* questions : 2×10=20

(a) Goals of financial management 16

(b) The theories of capital structure 674 Siv Notes

(c) Instruments of long-term finance 971

(d) Investment appraisal techniques in Capital Budgeting. 407

Siv Notes

STR = $\frac{COGS}{Stock}$

6

2001
2002
2003

2001 (May)

FINANCIAL MANAGEMENT

Paper-204

Full Marks – 70

Time – Three hours

The questions are of equal value.

Answer any *five* questions.

1. The following are the particulars of Mahavir Industries for 1999 and 2000 :—

Balance Sheet of Mahavir Industries

	1999	2000		1999	2000
Equity Capital	4,00,000	5,00,000	Fixed Assets	6[illegible]	[illegible]
10% Preference Capital	2,00,000	—	Debtors	[illegible]	140[illegible]
5% Debentures	—	1,00,000	Inventory	[illegible]	180[illegible]
Capital Reserve	—	1,00,000	Cash	[illegible]	60[illegible]
Profit & Loss A/c	2,50,000	60,000	Preliminary Expenses	[illegible]	40[illegible]
Creditors	1,50,000	1,40,000			
Other Liabilities	75,000	90,000			
	10,75,000	9,90,000		[illegible]	9,90,000

The following additional information for the year 2000 is relevant :

(a) Preference shares were redeemed at a premium of 10%

Turn over

ASSETS	2000	2001
Goodwill	230	180
Land & Building	400	340
Plant & Machinary	160	400
Debtors	320	400
Stock	154	218
Bills Receivable	40	60
Cash	30	20
Bank	20	16
	1354	1634

LIABILITIES	2000	2001
Equity Share Capital	600	800
Preference Capital	300	200
General Reserve	80	140
Profit & Loss A/c	60	96
Proposed Dividend	84	100
Creditors	110	166
Bills Payable	40	32
Tax Provision	80	100
	1354	1634

FFS = 102

Additional information:

(i) Proposed dividend made during 2000 has been paid during 2001.

(ii) Depreciation:

(a) Rs. 20,000 on Plant & Machinery

(b) Rs. 40,000 on Land & Buildings

Assume that 50 per cent of total sales are cash sales. Assets are to be aquired in the months of February and April. Therefore provisions should be made for the payment of Rs. 8,000 and Rs. 25,000 respectively for the same. An application has been made to the bank for the grant of a loan of Rs. 30,000 and it is hoped that it will be received in the month of May.

It is anticipated that a dividend of Rs. 35,000 will be paid in June. Debtors are allowed one months credit. Creditors for materials purchases and overheads grant one month's credit. Sales commission @ 3 per cent on sales is paid to the salesman each month.

5. The present credit terms of Future-kidd corporation are $\frac{1}{10}$ net 30. Its annual sales are Rs. 80 lakhs. Its average collection period is 20 days. Its variable costs and average total costs to sales are 0·85 and 0·95 respectively and its cost of capital is 10 per cent. The proportion of sales on which customers currently take discount is 0·5. The company is considering relaxing its discount terms to $\frac{2}{10}$ net 30. Such relaxation is expected to increase sales by Rs. 5 lakhs, reduce the average collection period to 14 days and increase the proportion of discount sales to 0·8. What will be the effect of relaxing the discount policy on company's profit? Take year as 360 days.

Contd.