Total No. of printed pages = 6

25(2) FMT 204

2009

FINANCIAL MANAGEMENT

Paper : 204

Full Marks - 70

Time - Three hours

The questions are of equal value.

Answer any *five* questions.

1. The projected cash flows from two mutually exclusive projects A and B are as under :

Period	Project A	Project B
O (outflow)	Rs. 22,000	Rs. 27,000
1 to 7 (inflow)	Rs. 6,000 (each year)	Rs. 7,000 (each year)
Project life	7 years	7 years

Advise on project selection with reference to internal rate of return. 14

Relevant PV factor at		For 7 years
15%	–	4.16
16%	–	4.04
17%	–	3.92
18%	–	3.81
19%	–	3.71
20%	–	3.60

2. (a) Write in brief about the various tools analysing the financial statements.

(b) From the following information, y required to ascertain the amount of flow funds on account of Plant :

Opening balance of Plant	Rs. 1,1
Closing balance of Plant	Rs. 1,97,
Provision for depreciation on Plant at the beginning of the year	Rs. 45,0
Provision for depreciation on Plant at the end of the year	Rs. [illegible]

During the year, a plant costing Rs. was purchased in exchange for fully debentures. An old plant costing Rs. 40, was sold for Rs. 34,000.

Depreciation provided on the same am to Rs. 18,000.

3. Prepare a Cash Budget for the three months ended 30th September 2001 based on the following information :

Cash at Bank on 1st July 2001	Rs. 25,000
Monthly salaries and wages (estimated)	Rs. 10,000
Interest payable in August 2001	Rs. 5,000

	June	July	August	September
Cash sales	1,20,000	1,40,000	1,52,000	1,21,000
Credit sales	1,00,000	80,000	1,40,000	1,20,000
Purchases	1,60,000	1,70,000	2,40,000	1,80,000
Other expenses	18,000	20,000	22,000	21,000

Credit sales are collected 50% in the month of sale and 50% in the following month. Collection from credit sales are subject to 10% discount if received in the month of sale and to 5% if received in the month following 10% of the purchases are in cash and balance is paid in next month. 14

4. M. C. Limited is planning an expansion programme which will require Rs. 30 crores and can be funded through one of the three following options :

(a) Issue further equity shares of Rs. 100 each at par

(b) Raise loans at 15% interest

(c) Issue preference shares at 12%.

Present paid up capital is Rs. 60 crores and average annual EBIT is Rs. 12 crores.

Assume income tax rate at 50%. After the expansion, EBIT is expected to be Rs. 15 crores p.a.

Calculate EPS under the three financing options indicating the alternative giving the highest return to the equity shareholders. 14

5. Star Ltd. manufacturers of colour TV sets are considering the liberalisation of existing credit terms to three of their large customers A, B and C. The credit period and likely quantity of TV sets that will be lifted by the customers are as follows :

Credit Period (Days)	Quantity lifted (No. of TV sets) A	B	C
0	1000	1000	–
30	1000	1500	–
60	1000	2000	1000
90	1000	2500	1500

The selling price per TV set is Rs. 9000. The expected contribution is 20% of the selling price. The cost of carrying debtors average 20% per annum.

You are required to determine the credit period to be allowed to each customer.

Assume 360 days in a year for calculation purposes. 14

6. A company has owner's equity of Rs.1,00,000 and the following accounting ratios :

Short term debt to total debt	–	0.40
Total debt to owner's equity	–	0.60
Fixed assets to owner's equity	–	0.60
Total assets turnover	–	2 times
Inventory turnover	–	8 times

Complete the following Balance Sheet from the above information. 14

Capital and Liabilities	Rs.	Assets	Rs.
Short term debt	–	Cash	–
Long term debt	–	Inventory	–
Total debt	–	Total current assets	–
Owner's equity	–	Fixed assets	–
Total capital and liability	–	Total assets	–

7. (a) Elaborate the major types of Financial Management decisions that business firms make.

(b) Critically examine the various schools of thought regarding existence of an optimum capital structure.