Reg.No.										

MANIPAL INSTITUTE OF TECHNOLOGY

Manipal University, Manipal – 576 104

VI SEM. B.E. (COMPUTER ENGG.) DEGREE END SEMESTER (MAKE-UP / SUMMER COURSE) EXAMINATIONS JULY - 2010
SUBJECT: FINANCIAL MANAGEMENT (HUM-304)
REVISED CREDIT SYSTEM
(08 / 07 / 2010)

Time: 3 Hours. MAX.MARKS: 50

Instructions to Candidates:
- Answer **ANY FIVE FULL** questions.
- Missing data, if any, may be suitably assumed.
- Use of Interest factor table is permitted.

1A) Distinguish between
(i) Journal and Ledger
(ii) Trading account and Profit and Loss account. ***(05)***

1B) A large sized chemical company has been expected to grow at 15% per year for the next 4 years and then to grow indefinitely at the rate of 5%. The required rate of return on the equity shares is 12%. Assume that the company paid a dividend of Rs.3 per share last year. Determine the market price of the share today. ***(02)***

1C) ABC Ltd. intends to issue new equity shares. Its present equity shares are being sold in the market at Rs.125 a share. The company's past record regarding payment of dividends is as follows.

Year:	1	2	3	4	5
Dividend per share:	10.70	11.45	12.25	13.11	14.03

The floatation costs are estimated at 3% of the current selling price of the shares on new equity shares.
(i) Calculate growth rate in dividends
(ii) Calculate cost of equity capital assuming growth rate determined under Q1C) (i) continues for ever.
(ii) Calculate cost of new equity shares assuming that the company has a fixed dividend payout ratio. ***(03)***

2A) A company has issued 15% debentures aggregating Rs.1, 00,000. The flotation cost is 5%. The company has agreed to repay the debenture at par in 5 equal annual installments starting at the end of year one. The company`s rate of tax is 35%. Find the cost of debt. ***(03)***

2B) You have been furnished with the financial information of Aditya Mills Ltd., for the current year.

Balance sheet, Dec 31, Current Year.

Liabilities	(Rs)	**Assets**	(Rs)
Equity share capital:	10, 00,000	Plant & Equipment:	6, 40,000
Retained earnings:	3, 68,000	Land & Buildings:	80,000
Sundry creditors:	1, 04,000	Cash:	1, 60,000
Bills payable:	2, 00,000	Sundry debtors:	3, 20,000
Other current liabilities:	20,000	Stock:	4, 80,000
		Prepaid insurance:	12,000
	-------------------		-----------------
	16,92,000		16, 92,000

Income statement for the company as on 31st Dec., Current year.

	(Rs)
Sales (all credit):	40, 00,000
Cost of goods sold:	30, 80,000
Operating expenses:	6, 80,000
Tax:	1, 20,000

Sundry debtors and stock at the beginning of the year were Rs 3, 00,000 and Rs 4, 00,000 respectively.

(a) Complete the income statement.

(b) Determine the following ratios of Aditya Mills Ltd.
(i) Current ratio (ii) Stock turnover ratio
(iii) Average collection period (iv) Total assets turnover ratio
(v) Net profit margin (vi) Return on equity **_(07)_**

3A) A Ltd. has issued bonds of the par value of Rs.1, 000 carrying annual interest rate of 10%. The interest is payable half yearly on 30th June and 31st December. The maturity period is 6 years. The required rate of return is 14%. Calculate the yield on maturity. **_(04)_**

3B) Construct the DuPont chart for Aditya Mills Ltd., in the current year with data available in the Q2B). **_(03)_**

3C) Y Ltd. is contemplating an investment of Rs.10, 00,000 in a new plant, which will provide a salvage value of Rs.80, 000 at the end of economic life of 5 years. The profit before depreciation and after tax are estimated to be as under:

Year	1	2	3	4	5
Profit (Rs.`000)	500	750	1250	1300	800

Assume the firm uses straight line depreciation and the same is allowed for tax purposes. Calculate the Average Rate of Return. **_(03)_**

4A) The management of Gemini Ltd., has planned to sell 3, 00,000 units of output in the coming year. The cost structure of the company's product for the desired level of production is given below.

	Cost per unit (Rs.)
Raw materials	20
Manufacturing expense	5
Other overheads	15
Total cost	40
Selling price	50
Profit	10

Examination of the past trend reveals:
i. Raw materials are held in stock for two months
ii. Work-in-process inventory is equal to half month's production
iii. Finished goods remain in the warehouse for a month
iv. Suppliers of materials extend a month`s credit
v. Two month`s credit is allowed to the debtors
vi. A minimum cash balance of Rs.25,000 is expected to be maintained
vii. The production pattern is assumed to be even during the year
Prepare the statement of working capital determination. ***(05)***

4B) The following data relate to a Company XYZ Ltd.

Sales	Rs. 2, 00, 000
Variable expenses 30% of Sales	
Fixed operating expenses	Rs. 1, 00, 000
Interest payable on debt	Rs.5, 000

(i) Using the concept of leverage, by what percentage will taxable income increase if sales increase by 6%.
(ii) Using the concept of financial leverage, by what percentage will taxable income increase if EBIT increases by 6%. ***(03)***

4C) Explain how the duration of the operating cycle can be calculated? ***(02)***

5A) The balance sheet of XYZ Co. is as follows:

Liabilities	Rs.	Assets	Rs.
Share Capital	60,000	Fixed Assets	1,50,000
Retained earnings	20,000	Current Assets	50,000
10% Long term Debt	80,000		
Current Liabilities	40,000		
Total	2,00,000		2,00,000

The company's total assets turnover ratio is 3:0. Its fixed operating costs are Rs.1, 00,000 and Its variable operating cost to sales ratio is 40%. The tax rate is 50%. (i) Calculate for the company different type of leverages given that the face value of share is Rs.10. (ii) Calculate percentage change in EPS if sales increases by 10%. ***(04)***

5B) What do you mean by Internal Rate of Return? Explain the procedure involved in the evaluation of IRR. ***(03)***

5C) Give journal entries for the following transactions giving in each case the nature of account (personal, real or nominal) and the rule applicable.

(i) Nitin invested Rs.1, 00,000 cash in the business.

(ii) Business purchased a building for Rs.50, 000 cash.
(iii) Business purchased goods on account for Rs.10, 000.
(iv) Business sold goods for cash, Rs.15, 000.
(v) Nitin withdrew cash Rs.2, 500.
(vi) Business paid rent Rs.200, Salary Rs.400. ***(03)***

6A) Comparative Balance sheet of a sugar Company is given below:

Owners Equities & Liabilities: (Rs.Lakhs)	**2008**	**2009**
Share capital	50	50
Reserves & Surplus	60	70
Long term debt	95	80
Short term bank borrowings	70	80
Trade creditors	50	60
Provisions	20	15
Total	**345**	**355**
Assets: (Rs.Lakhs)		
Net fixed assets	180	190
Inventories	70	60
Debtors	60	70
Cash	20	15
Other Current Assets	15	20
Total	**345**	**355**

Income statement of a sugar Company for the year 2009 is given below (Rs.Lakhs):

Net sales		800
Cost of Goods sold:		520
Stocks	300	
Wages & Salaries	105	
Other Mfg Expenses	115	
Operating Expenses:		150
Selling, Admn. & General Expenses	130	
Depreciation	20	
Non-operating Surplus or (Deficit)		(50)
Interest		30
Tax		20
Dividends		20
Retained earnings		10

(i). Complete Income statement
(ii). Prepare sources & uses of funds on Working Capital basis

(05)

6B) Calculate the net present value for a small-sized project requiring an initial investment of Rs.20, 000 and which provides net cash inflow of Rs.6, 000 each year for six years. Assume the cost of funds to be 8% per annum and that there is no scrap value. ***(02)***

6C) Define Operating and Financial break-even point. How they are related to Overall break-even point? ***(03)***