Reg.No.										

MANIPAL INSTITUTE OF TECHNOLOGY

Manipal University, Manipal – 576 104

VI SEM. B.E.(COMPUTER) DEGREE END SEMESTER EXAMINATIONS
May 2010

SUBJECT: FINANCIAL MANAGEMENT (HUM-304)
REVISED CREDIT SYSTEM
(10 / 05 / 2010)

Time: 3 Hours. MAX.MARKS: 50

Instructions to Candidates:

- Answer **ANY FIVE FULL** questions.
- Use of interest factor tables is permitted.

1A) Critically evaluate ARR criterion of project appraisal. **(05)**

1B) The transactions of the business for March 2010 are given below:

Year 2010	Particulars	Amount(Rs.)
March 01	Commenced business	10, 000
March 03	Paid two months rent in advance for a shop	1, 000
March 05	Purchased supplies on credit	700
March 07	Purchased machineries	5, 000

You are required to:

- Prepare journal entries for the above transactions
- Post the entries from the journal to the following ledger accounts
  - I. Supplies account
  - II. Prepaid rent account
  - III. Cash account
  - IV. Machinery account

(05)

2A) A man arranges to repay Rs. 1,00,000 bank loan in 10 equal annual installments at 12% per year compounded quarterly. Immediately after the 3rd payment, he borrows another Rs. 50,000 also at the same interest rate. When he borrows Rs. 50,000 he talks to the banker into letting him repay the remaining debt of the first loan and the entire amount of the second loan in 12 equal annual payments. The first of 12 payments would be made one year after he receives Rs. 50,000. Compute the amount of each of 12 payments? **(05)**

2B) Using the following information complete the balance sheet given below:

Total debt to Net worth	0.5:1
Total assets turnover ratio	2:1
Gross profit	30%
Average collection period (based on 360 days a year)	40 days
Acid test ratio	0.75:1
Inventory turnover ratio (based on cost of goods sold and year end inventory)	3 times

Balance sheet

Liabilities	**Amount(Rs)**	**Assets**	**Amount(Rs)**
Accounts payable	------------	Cash	--------------
Share capital	2, 00, 000	Accounts receivables	--------------
Retained earnings	3, 00, 000	Inventory	---------------
-------------------	-------------	Plant and equipment	--------------
Total	**-------------**	**Total**	**-------------**

(05)

3A) A Rs. 2500 face value bond carries a coupon rate of 10% and matures after 5 years. The bond amount will be amortized equally over its life. Determine the present value of the bond if the investors required rate of return is 12%? **(05)**

3B) The following financial statements are provided for certain company for the calendar year 2003- 2004(Rs.lakh):

Balance sheet @ Dec 31	**2003**	**2004**
Share capital	100	100
Reserves and surplus	80	90
Long term debt	120	150
Short term bank borrowings	70	90
Trade creditors	80	70
Provisions	60	50
Total	**510**	**550**
Net fixed assets	250	280
Inventories	100	120
Debtors	130	120
Cash	20	15
Other assets(Intangible)	10	15
Total	**510**	**550**

Income Statements:

Particulars	**2003**	**2004**
Net sales	650	700
Cost of goods sold	460	450
Operating expenses	160	170
Non operating surplus	50	10
Interest	35	30
Tax	10	30
Dividends	25	20

Consider depreciation as 20% of operating expenses.

Required:

- Prepare a table of changes in the items of the Balance Sheet.
- Prepare amplified funds flow statement.
- Prepare sources and uses of funds on cash basis.

(05)

4A) Write a short note on

i) Price – Earning Ratio

ii) Cost of a Specific Source of Finance. **(2½+2½)**

4B) Estimate the net working capital from the following information:

Particulars	Cost(Rs per unit)
Raw materials	42.4
Direct labor	15.9
Overheads	31.8

Selling price Rs.106 per unit.
Production 1,00,000 units per year.
Raw materials in stock 4 weeks.
Work-in-process stage 2 weeks.
Finished goods stage 4 weeks.
Credit allowed by suppliers 4 weeks.
Credit allowed to debtors 8 weeks.
Lag in payment of wages 1.5 weeks
Lag in payment of overheads 4 weeks
Cash on hand Rs.1, 25, 000.
80% of sales are credit sales.
Assume 52 weeks a year. **(05)**

5A) The share capital of a company is Rs.8, 00, 000 with shares of face value Rs.10. It has a debt capital of Rs.5, 00, 000 at 12% interest rate. The sales of the company are 2, 50, 000 units per annum at a selling price of Rs.5 per unit and the variable cost per unit is Rs.3. The fixed cost is Rs.1, 00, 000 and tax rate is 50%. If the sales increase by 20% calculate the percentage increase in EPS, degree of operating and financial leverages at the two output levels. Comment on the behavior of leverages when the production is increased by 20%. **(05)**

5B) Explain the following terms with suitable examples.

- Non- operating surplus
- Intangible fixed assets
- Sundry creditors
- Fixed liabilities
- Prepaid expenses

(05)

6A) A company purchased a machine for Rs. 5,,00,000 having a zero salvage value and a discounted payback period of 7.5 years. The firm follows straight line method of depreciation at a rate of 10%. If the cash flows are evenly distributed and the tax rate is 40%, what is the annual PBT on the machine? Also determine the IRR and NBCR of the machine if the cost of capital is 12%. **(07)**

6B) Determine the cost of capital of a company that is employing equity capital and term loans in the ratio 3:2 and paying a constant dividend of 12.5% per year and an interest of 14% per year. The tax rate is 40%. **(03)**