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MANIPAL INSTITUTE OF TECHNOLOGY
Manipal University, Manipal – 576 104



DEPARTMENT OF HUMANITIES & MANAGEMENT
VI SEM. B.E. (OPEN/PROGRAM ELECTIVE)
DEGREE END SEMESTER MAKE-UP EXAMINATIONS JULY-2014

SUBJECT: FINANCIAL MANAGEMENT (MEE-302.8 / HSS-304)
REVISED CREDIT SYSTEM
(11/07/2014)

Time: 3 Hours.

MAX.MARKS: 50

Instructions to Candidates:

- ❖ Answer **ANY FIVE FULL** questions.
- ❖ Missing data, if any, may be suitably assumed.
- ❖ Interest factor table is provided in the last page (else use formula).

- 1A)** Two machines are being considered for a manufacturing process. Machine A has a first cost of Rs. 1,05,000, and its salvage value at the end of six years of estimated service life is Rs. 21,000. The operating costs of this machine are estimated to be Rs. 6,800 per year. Extra income taxes are estimated at Rs. 2,400 per year. Machine B has a first cost of Rs. 44,000, and its salvage value at the end of three years' service life is estimated to be RS. 1000. The annual operating costs will be Rs. 11,500. Compare these two alternatives by the present-worth method at $i=15\%$. **(4)**
- 1B)** A 1000 face value bond bearing a coupon rate of 12% matures after 5 years. Show that the discount on the bond declines as the maturity approaches if the required rate of return is 15%. **(3)**
- 1C)** College Financial Sources, which makes small loans to college students, offers to lend \$500. The borrower is required to pay \$40 at the end of each week for 16 weeks. Find the interest rate per week. What is the nominal interest rate per year? What is the effective interest rate per year? **(3)**
- 2A)** i) State the bond value theorems.
ii) Explain the term yield to maturity. **(4)**
- 2B)** Briefly explain any four types of Bond. **(2)**
- 2C)** Terry Tiles Ltd. latest annual dividend of \$1.25 a share was paid yesterday and maintained its historic 7% annual rate of growth. You plan to purchase the stock today because you believe that the dividend growth rate will increase to 8% for the next three years and the selling price of the stock will be \$60 per share at the

end of that time.

- i) How much should you be willing to pay for the Terry stock if you require a 15% return?
- ii) What is the maximum price you should be willing to pay for the Terry stock now, if you believe that the 9% growth rate can be maintained indefinitely and you are not going to sell the stock immediately? Your required rate of return is 12%? **(4)**

3A) From the following balance of Mr. XYZ, prepare trading a/c and Profit and Loss a/c for year ending 31-08-13.

Particulars	Amount	Particulars	Amount
Opening stock	46800	Discount paid	7540
Sales Return	8600	General expenses	3910
Purchases	2,43,000	Audit fee	700
Freight	18600	Insurance paid	600
Rent	5700	Travelling expenses	2330
Salaries	9300	Postage	870
Advertisement	14600	Interest on investment	250
Sales	289600	Discount received	4190
Purchase returns	5800		

Closing stock is Rs. 79800/- **(4)**

3B) List down the assumptions and applications of breakeven analysis (any four on each). **(4)**

3C) Explain the double entry book-keeping system with an example. **(2)**

4A) Journalize the following transactions, prepare the ledger for cash a/c, purchase a/c and all nominal a/c's.

Date	Transactions	In Rs.
1-9-12	Commenced business with a cash	11,00,000
1-9-12	Deposited to bank	4,00,000
2-9-12	Purchased machineries	3,00,000
2-9-12	Purchased goods	2,80,000
3-9-12	Cash sales	1,60,000
6-9-12	Purchased goods for Jai & Co.	2,20,000
8-9-12	Paid to Jai & Co.	1,50,000
10-9-12	Paid telephone rent by cash	11,000
11-9-12	Purchased goods from Jai & Co	1,80,000
15-9-12	Received commission	1000
17-9-12	Paid to Jai & Co.	60,000

(7)

4B) Differentiate between equity shares and preference shares. **(3)**

- 5A)** Old fashioned Berry pies Limited, currently operates a single bakery but is not considering a second location in a new shopping mall. The owner estimates that fixed costs would be \$3000 per week, and that labour and materials produce pies at that location will be 60 cents per pie. Pie will be sold for \$1.60 each.
- What number pies must be sold to break even?
 - What profit (or loss) would there be on sales of 20,000 pies in one week?
 - What volume would be required in order to realize a profit of \$12,000?
- (4)**
- 5B)** Determine the sales of a firm with the following financial data:
 Current ratio= 1.5
 Acid-test ratio= 1.2
 Current liabilities= 800,000
 Inventory turnover ratio= 5 times
- (3)**
- 5C)** State the objectives of Financial Management. **(3)**
- 6A)** Explain the following ratios and discuss their importance in financial analysis:
- Liquidity ratios
 - Activity ratios
 - Profitability ratios
- (6)**
- 6B)** Explain the important types of Current Assets and Current Liabilities. **(4)**

Compound Interest Factors									
Single Payment		Uniform Payment Series				Arithmetic Gradient			
	Compound Amount Factor	Present Worth Factor	Sinking Fund Factor	Capital Recovery Factor	Compound Amount Factor	Present Worth Factor	Gradient Uniform Series	Gradient Present Worth	
<i>n</i>	Find <i>F</i> Given <i>P</i> <i>F/P</i>	Find <i>P</i> Given <i>F</i> <i>P/F</i>	Find <i>A</i> Given <i>F</i> <i>A/F</i>	Find <i>A</i> Given <i>P</i> <i>A/P</i>	Find <i>F</i> Given <i>A</i> <i>F/A</i>	Find <i>P</i> Given <i>A</i> <i>P/A</i>	Find <i>A</i> Given <i>G</i> <i>A/G</i>	Find <i>P</i> Given <i>G</i> <i>P/G</i>	<i>n</i>
1	1.150	.8696	1.0000	1.1500	1.000	0.870	0	0	1
2	1.322	.7561	.4651	.6151	2.150	1.626	0.465	0.756	2
3	1.521	.6575	.2880	.4380	3.472	2.283	0.907	2.071	3
4	1.749	.5718	.2003	.3503	4.993	2.855	1.326	3.786	4
5	2.011	.4972	.1483	.2983	6.742	3.352	1.723	5.775	5
6	2.313	.4323	.1142	.2642	8.754	3.784	2.097	7.937	6
7	2.660	.3759	.0904	.2404	11.067	4.160	2.450	10.192	7
8	3.059	.3269	.0729	.2229	13.727	4.487	2.781	12.481	8
9	3.518	.2843	.0596	.2096	16.786	4.772	3.092	14.755	9
10	4.046	.2472	.0493	.1993	20.304	5.019	3.383	16.979	10
11	4.652	.2149	.0411	.1911	24.349	5.234	3.655	19.129	11
12	5.350	.1869	.0345	.1845	29.002	5.421	3.908	21.185	12
13	6.153	.1625	.0291	.1791	34.352	5.583	4.144	23.135	13
14	7.076	.1413	.0247	.1747	40.505	5.724	4.362	24.972	14
15	8.137	.1229	.0210	.1710	47.580	5.847	4.565	26.693	15
16	9.358	.1069	.0179	.1679	55.717	5.954	4.752	28.296	16
17	10.761	.0929	.0154	.1654	65.075	6.047	4.925	29.783	17
18	12.375	.0808	.0132	.1632	75.836	6.128	5.084	31.156	18
19	14.232	.0703	.0113	.1613	88.212	6.198	5.231	32.421	19
20	16.367	.0611	.00976	.1598	102.444	6.259	5.365	33.582	20