



## All India Institute of Management Studies

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### FINANCIAL MANAGEMENT /BASICS OF FINANCIAL MANAGEMENT

#### Questions Paper

1. a) Explain the accounting concepts of Business entity, Dual aspect and Matching concept.  
b) What is a Trial Balance? Compare it with a Balance Sheet of a company.
2. a) What is Weighted Average Cost of Capital?  
b) Explain the Conventional Theory of Optimum capital structure with a graph / unit.
3. a) Explain the Ratio Return on Investment (ROI) through the two components making the ratio.  
b) Calculate the following ratios from the data given below:
  - i) ROI and its components
  - ii) Current Ratio

Balance Sheet as on 31st March 1992

Ordinary Share Capital	1,00,000	Land & Building	2,20,000
Reserve	1,70,000	Machinery	1,65,000
6% Preference Share	1,00,000	Furniture	30,000
7% Debentures	40,000	Stock	40,000
8% Loan from F.I.	20,000	Debtors	1,00,000
Bank Overdraft	40,000	Cash	12,000

Outstanding Creditors 67,000

Provisions 30,000

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5,67,000                      5,67,000  
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Profit before interest & Tax Rs. 60,000

Interest 4,400

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55,600

Tax                                      20,000

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Profit after tax                      35,600

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4. a) Explain the Analytical Approach to fix the quantity standard of material.  
b) Find the value of two material cost variances. Also name them

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STANDARD                      ACTUAL

Material -----

	Quantity	Price/Kg.	Quantity	Price/Kg.
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X	10 Kgs.	Rs. 4	12 Kgs.	Rs. 3.75
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5. a) Explain the defect of Internal Ratio of Return as a measure of evaluation of a capital expenditure.

- b) Calculate IRR from the following data: Use the tables.

Initial Investment - Rs. 11 lakhs

1st Year Cash Flow - Rs. 7 lakhs

2nd Year Cash Flow - Rs. 7 lakhs

6. a) Define Breakeven Point and Margin of Safety and explain their calculations with a simple example.

- b) What are the uses and limitations of Breakeven Analysis?

7. a) What is an Operating Cycle? Explain with a diagram.

- b) How is it useful to estimate the Working Capital requirements?

8. a) What is Net Present Value and what are its merits over Internal Rate of Return in the context of investment decisions?

- b) Find the Net Present Value of the following investment:

Initial Investment Rs. 4.50 lakhs

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Year	Cash Flow Rs. in lakhs
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1	2.5
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2	2.5
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9. Explain EOQ. Recorder Point and ABC analysis and their role in Inventory Management.

10. Write short notes on the following:

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- a) Profit Maximisation vs. Wealth Maximisation.
  - b) Value added Ratio as a productivity measure.
  - c) Fixed, Variable and Semi-variable costs.
  - d) Pay-back period.
  - e) Internal Rate of Return.
  - f) Factors influencing the Divended Policy.
  - g) FIFO, LIFO and Weighted Average Cost.
  - h) Operating Cycle.
  - i) Working Capital Management and its objectives.
  - j) Labour Cost Variance.