

[Time: 3.00 Hrs]

[Marks: 75]

Please check whether you have got the right question paper.

Instructions :

1. Q1 (20 marks) & Q8 (15 marks) are compulsory.
2. Attempt Any Four (40 marks) out of Q2, Q3, Q4, Q5, Q6 and Q7.
3. Students have to attempt any four out of the remaining six questions and within each question; students have to attempt any one out of two sub – questions. Each sub – question would carry 10 Marks.
4. Figures to the right indicate full marks.
5. Draw neat diagrams wherever necessary.

Q.1 Read and attempt the following:

(A) Multiple choice question.

10 Marks

1. Working Capital is the _____.

- A) Capital borrowed from the Banks.
- B) Difference between Current Assets and Current Liabilities.
- C) Difference between Current Assets and Fixed Assets.
- D) Cash and Bank Balance.

2. Liquid Ratio is equal to liquid assets divided by _____.

- A) Current Liabilities.
- B) Total Liabilities.
- C) Contingent Liabilities.
- D) Non-Current Liabilities.

3. Financial leverage can be measured in _____.

- A) Stock term.
- B) Flow term.
- C) Both (a) and (b).
- D) None of these

4. Long term finance is required for _____.

- A) Current assets.
- B) Fixed assets.
- C) Intangible assets.
- D) None of these.

5. Which of the following is the term that describes the amount of time taken for a capital budgeting project to recover its initial investment?

- A) Investment period
- B) Redemption period
- C) Payback period
- D) Maturity period

6. Which of the following is true for a project with a shorter payback period?

- A) The project will have a lesser risk
- B) The project will have less Net Present Value
- C) The project will have more Net Present Value
- D) The project will have a greater risk

7. Which of the following decisions affects the size of assets, the profitability and competitiveness of a firm?

- A) Dividend decision
- B) Working capital decision
- C) Capital Budgeting decision
- D) None of the above

8. Which of these is not a part of Capital Structure?

- A) Equity Shares
- B) Debentures
- c) Short-term borrowings
- D) Bonds

9. The process of financing the assets of a business is known as:

- A) Asset Structure
- B) Owners Structure
- C) Financial Structure
- D) Capital Structure

10. Retained earnings are _____.

- A) Internal sources of funds
- B) External sources of funds
- C) Both
- D) None of the above

(a) State whether True or false.

1. Capital budgeting decisions are used to determine how to raise the cash necessary for investments.
2. Ratios are used to compare different firms in the same industry.
3. Liquidity ratios indicate how fast a firm can generate cash to pay bills
4. The current ratio is more severe test of a firm's liquidity than the quick ratio.
5. The assumptions of capital structure theories is that Corporate Income Tax does not exist.
6. Financial statements do not provide information about sources of raising funds as well as the applications of these funds.
7. Financial leverage is calculated as (Sales - Variable cost) / (Earnings before Interest and tax - Interest)
8. The current ratio of 2:1 is considered to be standard.
9. The projects having maximum positive Net present value will be ranked highest.
10. The finance manager is accountable for arrangement of financial resources.

Q.2 Attempt any one of the following:

10 Marks

(A)

Liabilities	Rs.	Assets	Rs.
Equity share capital	10,00,000	Fixed assets	20,00,000
Pref share capital	4,00,000	Investment	2,00,000
Reserve and surplus	7,00,000	Closing stock	2,00,000
15% Debentures	5,00,000	Sundry debtors	4,60,000
Sundry creditors	2,40,000	Bills receivable	60,000
Bank overdraft	1,60,000	Cash at bank	60,000
		Preliminary exp	20,000
Total	30,00,000	Total	30,00,000

Summarized Profit and Loss Account is as under for the year ending on 31-3-'04:

Sales (25% Cash sales)	Rs. 80,00,000
Less: Cost of goods sold	Rs. 56,00,000
Gross Profit	Rs. 24,00,000
Net profit (Before interest and tax 50%)	Rs. 9,00,000

Calculate the following ratios:

- (1) Rate on Return on Capital Employed
- (2) Proprietary Ratio
- (3) Debt-Equity Ratio
- (4) Capital gearing ratio
- (5) Debtors Ratio (365 days of the year.)
- (6) Rate of Return on Shareholders' Funds
- (7) Rate of Return on Equity shareholder's fund

B) Define liquidity ratios.

Q.3 Attempt any one of the following:

10 Marks

(A) X ltd proforma cost sheet of a company provides the following particulars:

Particulars	Amt Rs
Raw materials	80
Labour	30
Overheads	60
Total cost	170
Profit	30
Sales per unit	200

The following further particulars are available:

Raw materials in stock, on average, one month.

Materials in process (completion stage, 50 per cent), on average, half a month.

Finished goods in stock, on average, one month.

Credit allowed by suppliers is one month.

Credit allowed to debtors is two months.

Average time-lag in payment of wages is 1.5 weeks and one month in overha expenses.

one-fourth of the output is sold against cash.

cash in hand and at bank is desired to be maintained at Rs 3,65,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production. You may assume that production is carried on evenly throughout the year, and wages and overheads accrue similarly. For calculation purposes, 4 weeks may be taken as equivalent to a month.

B) Explain working capital cycle.

Q.4 Attempt any one of the following:

10 Marks

(A) Assume that ABC Inc is considering two projects namely Project X and Project Y and wants to calculate the NPV for each project. Both project X and project Y is four-year project and cash flows of both the projects for four years are given below:

Year	Project A Cash Flows	Project B Cash Flows
1.	\$ 5000	\$ 1000
2.	\$ 4000	\$ 3000
3.	\$ 3000	\$ 4000
4.	\$ 1000	\$ 6750

The firm's cost of capital is 10% for each project and the initial investment amount is \$ 10,000. Calculate-

- Payback period
- Discounted payback period
- Net present value
- Profitability Index

(B) Explain Advantages of capital budgeting.

Q.5 Attempt any one of the following:

10 Marks

(A) Explain short term Source of finance

(B) Explain Long term sources of finance.

Q.6 Attempt any one of the following:

10 Marks

(A) A firm has sales of Rs 40 lacs, Variable cost of Rs 25 lacs, Fixed Cost of Rs 6 lacs. 10% Debentures of Rs 30 lacs & Equity Capital of Rs 45 lacs of Rs 10 Each. Calculate leverages and EPS.

(B) State different types of financial statements and state its components

Q.7 Attempt any one of the following:

10 Marks

(A) What do you mean by borrowed fund? Explain different types of borrowed funds.

(B) Evaluate Theory of Operating Net Income Approach

Q.8 Write short notes on Any two the following:

15 Marks

(A) CAPM

(B) Current ratio

(C) Operating leverages

(D) Net working capital
