



MC-3543

Second Year B. B. A. (Sem. IV) (CBCS) Examination  
September / October – 2013  
Financial Management - II

Time : 3 Hours]

[Total Marks : 70

Instruction :

नीचे दृष्टावित निसानीवाणी विगतो उत्तरवडी पर अवश्य वपवी.  
Fillup strictly the details of signs on your answer book.

Name of the Examination :  
**Second Year B. B. A. (Sem. 4) (CBCS)**

Name of the Subject :  
**Financial Management - 2**

Subject Code No. **3 5 4 3** Section No. (1, 2,.....) : **Nil**

Seat No. :

Student's Signature

- 1 Answer any five (2 marks each) 10
- (a) Explain the difference between Net Present Value and Benefit-cost ratio.
- (b) What is the importance of doing capital budgeting ?
- (c) What is the selection criteria for projects evaluated on Accounting Rate of Return method ?
- (d) Why is working capital also known as circulating capital ?
- (e) What is a deposit float ?
- (f) Define economic order quantity. How is it computed ?
- (g) Discuss the impact of credit policy variables on sales and profitability.
- (h) What is a public deposit ? How is it different from bank deposit ?

- 2 What is capital rationing ? Explain the concept of capital rationing with respect to divisible and indivisible projects giving appropriate examples. 12

OR

- 2 (a) Write a short note on time value of money. 6
- (b) Explain the process of capital budgeting. 6

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- 3 A company has to decide on either of the following proposals. Assuming a required rate of return of 10% p.a. evaluate the investment proposals under : Pay back period, Average rate of return, and Profitability Index method. 12

| Particulars        | Proposal A | Proposal B |
|--------------------|------------|------------|
| Cost of Investment | Rs. 20,000 | Rs. 28,000 |
| Life               | 4 years    | 5 years    |
| Scrap value        | nil        | nil        |

Cash in flow after depreciation and tax is as under :

| Year       | 1    | 2    | 3    | 4    | 5    |
|------------|------|------|------|------|------|
| Proposal A | 500  | 2000 | 3500 | 2500 | --   |
| Proposal B | nil  | 3400 | 3400 | 3400 | 3400 |
| P.V. @ 10% | .909 | .826 | .751 | .683 | .621 |

Each project will require an additional working capital of Rs. 2,000, which will be received back in full after the expiry of each project life. Depreciation is provided under SLM.

OR

- 3 (a) What is internal rate of return ? Discuss the steps in computation of IRR. 6
- (b) The following two projects S and R require an investment of (R) 200000 each. The profit after tax for these projects is as follows : 6

| Year | Project S (R) | Project R (R) |
|------|---------------|---------------|
| 1    | 80000         | 20000         |
| 2    | 80000         | 40000         |
| 3    | 40000         | 40000         |
| 4    | 20000         | 40000         |
| 5    | -             | 60000         |
| 6    | -             | 60000         |

Using payback period method determine which project is preferable.

- 4 Discuss the need for balanced investment in inventories. Also explain how pricing and valuation of stocks is done. 12

OR

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- 4 The data of Sarla Products Ltd. is given below 12  
(figures in rupees thousands)
- 1 Opening Balance of
    - (a) Raw Materials, stores etc. .... 230
    - (b) Work-in-process ..... 50
    - (c) Finished Goods ..... 260
    - (d) Book Debts ..... 380
    - (e) Trade creditors ..... 250
  - 2 Closing Balance of
    - (a) Raw Materials, stores etc. .... 250
    - (b) Work-in-process ..... 52
    - (c) Finished Goods ..... 300
    - (d) Book Debts ..... 450
    - (e) Trade creditors ..... 300
  - 3 Purchases of raw materials, stores etc. .... 810
  - 4 Consumption of raw materials, stores etc. .... 790
  - 5 Manufacturing expenses ..... 380
  - 6 Depreciation ..... 60
  - 7 Selling, administrative and financial costs ..... 240
  - 8 Sales ..... 2000
- Calculate the operating cycle

- 5 Explain with the help of various methods how receivables can be monitored. 12

OR

- 5 Prepare a cash budget of ABC Ltd. for the period 12  
July – December 2012 from the following information (R in thousands)

| Particulars                   | May  | June | July | Aug. | Sept. | Oct. | Nov. | Dec. | Jan. |
|-------------------------------|------|------|------|------|-------|------|------|------|------|
| Sales (net of cash discounts) | 1500 | 1500 | 2500 | 3500 | 4500  | 2500 | 2500 | 1500 | 1500 |
| Materials                     | 800  | 1500 | 2200 | 2900 | 1500  | 1500 | 800  | 800  |      |
| Rent                          | -    | -    | 50   | 50   | 50    | 50   | 50   | 50   |      |
| Salaries                      | -    |      | 150  | 200  | 250   | 150  | 150  | 150  |      |
| Miscellaneous expenses        | -    |      | 20   | 30   | 40    | 20   | 20   | 10   |      |
| Taxes                         | -    |      |      |      |       | 500  |      | 500  |      |
| Construction                  | -    |      |      |      |       | 1500 |      |      |      |



Credit terms : Customers are allowed 40 days. If they pay within 20 days, cash discount will be given. Twenty percent sales are in the same month of sales. Seventy percent sales revenue is received in the second month and ten percent sales are received in the third month.

Materials are bought in the month before the company expects to sell the finished goods. Suppliers allow one month credit. Tax of Rs. 4 lakhs is paid in the month of September and December as tax.

The company wants to maintain a minimum cash balance of Rs. 6 lakhs in all the months. The company has an opening balance of Rs. 5 lakhs on July 1. Determine the company's requirements of cash for the period from July to December.

6 Write short notes : (any two)

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- (a) Commercial Paper
- (b) Trade credit
- (c) Process of cash management
- (d) Estimation of working capital requirement.