VPM's
DR VN BRIMS, Thane
Programme: PGDM (2016-18)
Second Trimester Examination January 2017

Subject	**Financial Management I**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages	**3**	**Date**	**02.01.2017**

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q. 1 (a) Classify the following items into
a. Operating activities
b. Investing activities
c. Financing activities
while preparing Cash Flow Statement for the company as per AS-3 :
i. Sale of fixed assets
ii. redemption of debentures
iii. issue of preference shares
iv. payment of taxes
v. payment of interest on money borrowed
vi. repayment of bank loan
vii. dividend paid to equity shareholders.
viii. dividend income received from investments.
ix. premium on redemption of preference share capital
x. interest received on investment in bonds.
(1x10=10 Marks)

(b) The Balance Sheets of Neel Sales Ltd. as on 31.3.2015 and 31.03.2016 are given below:

Assets	**31.03.2015**	**31.03.2016**
Land & Buildings	8,00,000	6,40,000
Investments	1,00,000	1,20,000
Inventory	4,80,000	4,20,000
Accounts Receivables	4,20,000	9,10,000
Cash & Bank Balances	2,98,000	3,94,000
Total Assets	**20,98,000**	**24,84,000**
Liabilities		
Share Capital	9,00,000	9,00,000
Reserves	6,00,000	6,20,000
P & L Account	1,12,000	1,36,000
Term Loan	NIL	5,40,000
Current Liabilities	4,86,000	2,88,000
Total Liabilities	**20,98,000**	**24,84,000**

The following details are provided:

i. Dividend paid during the year 2015-2016 was Rs. 80,000.
ii. Net profit for the year was Rs. 1,24,000 after charging depreciation on fixed assets amounting to Rs.1,40,000.
iii. Investments worth Rs. 16,000 were sold during the year for Rs. 17,000. No revaluation of the investments was carried out at the year-end.
iv. Fixed Assets were sold at a profit of Rs. 4,000 during the year and the profit is included in the net profit for the year.

You are required to prepare the Statement of Changes in Working Capital and the Funds Flow Statement for the year ended 31st March, 2016.
(10 Marks)

Attempt Any FOUR from the Remaining SIX Questions

Q2) ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

a) Following are the details of four firms of the same industry:

FIRM	Change in	Change in Operating	Change in Earning

	Revenue	Income	per Share
P	27%	25%	30%
Q	25%	32%	24%
R	23%	36%	21%
S	21%	40%	23%

Find out:

i. Degree of operating leverage, and

ii. Degree of combined leverage for all the firms.

b) From the following information, extracted from the books of a manufacturing company, compute the operating cycle in days and the amount of working capital required:

Period covered	365 days
Average period of credit allowed by suppliers	6 days
(Rs. In '000)	
Average total of debtors outstanding	420
Raw material s consumption	5,840
Total production cost	10,220
Total cost of sales	10,950
Sales of the year (credit)	12,775
Value of average stock maintained-	
Raw materials	480
Work in Progress	420
Finished goods	660

c) Write short note on 'Economic Ordering Quantity' (EOQ).

Q3) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

a) Calculate **cash from operations** from the following information:

Net Profit	Rs 1,05,000
Depreciation	Rs 22,000
Reduction in debtors	Rs 5000
Increase in salaries payable	Rs 5000
Gain from a sale of plant	Rs 6000
Rise in inventory	Rs 35000
Reduction in creditors	Rs 5000
Reduction in Tax provision	Rs 10,000

b) A company has an operation leverage of 1.2 as against 1.25 during the previous year. If the current fixed cost is 25% more than that of the previous year, to what extent has the contribution earned by the firm changed over the previous year?

c) Mention ten factors affecting working capital requirements for a business organization.

Q4) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

a) The following information is related to Sunrise Ltd.:

Particulars	**Rs.**
Sales	4,00,000
Less: Variable expenses 35%	1,40,000
Contribution	2,60,000
Less: Fixed expenses	1,80,000
EBIT	80,000
Less: Interest	10,000
Taxable Income	70,000

i. What percentage will taxable income increase, if the sales increase by 6%? Use Combined Leverage.

ii. What percentage will EBIT increase, if there is 10% increase in sales? Use Operating Leverage

iii. What percentage will taxable income increase, if EBIT increases by 6%? Use Financial Leverage.

b) Distinguish between Cash Flow Statement & Cash Budget.

c) What are the various costs associated with maintaining inventory?

Q5) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

a) A company is considering two financial alternatives to finance its expansion plan of Rs. 1 crore. First alternative: by issue of equity shares @ Rs. 12.50; Second alternative: by issue of 14% debentures. Tax to be considered at 40%. Its present capital structure consists of equity shares Rs. 20 lakhs and 8% debentures of Rs. 50 lakhs. Expected price earnings ratio in case of first alternative is 14 and in case of second alternative is 12. You are required to calculate the indifference point at which market price of share under both alternatives will be same.

b) The following details of Alpha Limited for the year ended 2016 are furnished:

Financial Leverage	2:1
Operating Leverage	3:1
Interest charges per annum	Rs. 20 lakh
Corporate Tax Rate	40%
Variable cost as % of sales	60%

Prepare income statement of the company.

c) Write short note on 'Factoring'.

Q6) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

a) XYZ Ltd manufactures an industrial product A whose quarterly demand is 30,000 units. To manufacture 1 unit of product A, 4 units of a particular component B is required. The cost of 1 unit of component B to the company stands at Rs.125 and its ordering cost is Rs.400. The opportunity cost of carrying inventory is estimated at 12% p.a. Calculate the following for component B:

i. Economic Order Quantity (EOQ)

ii. If a discount of 2% is offered by the supplier, is it advisable to consider a minimum order/lot size of 10000 units for XYZ Ltd.?

b) Syntex Limited is planning an expansion programme which will require Rs. 30 crore and can be funded through any of the following three options:

Option 1- Issue further equity shares of Rs. 100 each at par.
Option 2- Raise debt at 15% interest
Option 3- Issue preference shares at 12%

Present paid up capital is Rs. 60 crore and average annual EBIT is Rs. 12 crore. Company's income tax rate is 30%. After the expansion, annual EBIT is expected to be Rs.15 crore.

Calculate the Earnings per Share (EPS) under the three financing options. Which alternative gives the highest return to the equity shareholders?

c) Explain the functions of the Finance Manager in the corporate set up.

Q7) ***Any two from (a) or (b) or (c) ———— (5x2) = 10 Marks***

a) From the following details, determine fast moving material.

Particulars	Material X (Rs.)	Material Y (Rs.)
Opening Stock	25,000	87,500
Closing Stock	15,000	62,500
Purchases	1,90,000	1,25,000

b) Explain the following terms:

i. Permanent v/s Temporary Working Capital
ii. Gross Working Capital v/s Net Working Capital

c) What are the costs associated with maintaining Receivables?