

**BACHELOR OF BUSINESS ADMINISTRATION
(RETAIL SERVICES) (BBARS)**

Term-End Examination

December, 2012

BRS-016 : FINANCIAL MANAGEMENT

Time : 3 hours

Maximum Marks : 100

- Note :*
1. Answer *any five* questions.
 2. Figures to the right indicate marks.
 3. Kindly show working notes wherever possible. They shall be treated as part of the answer.

1. Bhairavi Associates is engaged in the manufactures of pistons for two-wheeler and supplies them to leading two-wheeler manufacturers. The following details were extracted from the records of the company. You are required to ascertain the working capital requirements of the company for the month of April 30, 2012. 20

Particulars	Amount in Rs.
Materials	300
Wages	200
Overheads	100
Total Cost	600
Profit	90
Selling Price per unit	690

Additional Information :

- (a) The company produced 4,80,000 units in the previous financial year. It is expected to increase the output by 20% per annum in the financial year 2012-13. The cost components would increase as follows : Materials – 8%, Labour 6% and Overheads by 4% per unit. Profits would bear the same relation to cost as in the previous year.
- (b) Raw Material shall remain in stock for 2 months.
- (c) The material shall remain in the production process for 1 month.
- (d) Finished Goods remain in stock for 3 months.
- (e) Debtors enjoy a credit of 3 months.
- (f) Creditors extend a credit of 2 months.
- (g) 40% of sales and 20% of purchases are for cash.
- (h) Cash and bank balance is expected to be Rs. 1,20,000 on an average.

2. The following Income and Expenditure details have been extracted from the records of Swaranjali Traders. Using the information prepare a Cash Budget for the quarter commencing April 01, 2012, when the Bank balance was Rs. 23,700. 20

Month	Sales	Purchase	Wages	Factory Exp.	Office Exp.	Rent
January	6,50,000	1,80,000	90,000	1,66,000	48,000	48,000
February	7,50,000	2,00,000	90,000	1,66,000	52,000	48,000
March	9,00,000	2,20,000	1,10,000	1,66,000	52,000	48,000
April	11,20,000	2,40,000	1,10,000	1,75,000	64,000	48,000
May	12,50,000	2,40,000	1,10,000	1,75,000	64,000	48,000
June	16,50,000	2,40,000	1,10,000	1,75,000	64,000	48,000

Other information :

- (a) 40% of the purchases are for cash and balance are on a credit of 2 months.
- (b) 20% of the sales are for cash and the balance are on 3 months of credit.
- (c) Delay in payment of wages and factory expenses is 1 month and that in the payment of Office and Rent is $\frac{1}{2}$ a month.
- (d) Selling expenses are paid 1 month in advance.

3. Alaap Limited is considering replacing its existing machine. The Project Manager has identified two machines having the same cash outflow. Using the information provided advise which machine the company should purchase based on NPV Method.

(Amount in crores)

	Machine Alpha	Machine Beta	Machine Gamma
Outflows	(2500)	(2500)	(2500)
Inflows			
Year 1	340	560	740
Year 2	680	580	640
Year 3	820	760	980
Year 4	960	920	450
Year 5	850	830	840

The company anticipates its cost of capital of 10%. Using PV tables calculate which machine should be selected by the Project Manager on the basis of NPV. Why do the machines show a different NPV inspite of the cash inflows and outflows being the same for all the three machines ?

4. (a) What do you mean by Trading on Equity ? 4
- (b) Explain the factors affecting trading on equity. 8

- (c) What is IRR ? Explain with the help of an example. 8
5. (a) Explain the concept of under capitalization. Enumerate its causes. 7
- (b) What remedies would you recommend to overcome over-capitalization ? 7
- (c) What is capital gearing ? What factors affect capital gearing ? 6
6. The Balance Sheet of Aaroh Constructions is given below. Convert the following information into vertical format as per Schedule VI of Companies Act and calculate the following ratios and comment on the same : 20
- (a) Current Ratio
- (b) Acid Test Ratio
- (c) Capital Gearing Ratio
- (d) Proprietary Ratio
- (e) EPS

Assets	2009-10	2010-11
Land	15,00,000	15,00,000
Machinery	9,00,000	8,40,000
Furniture	4,50,000	4,05,000
Buildings	7,30,000	8,27,000
Sundry Debtors	6,50,000	8,22,000
Bills Receivable	1,30,000	1,42,000
Stock	1,80,000	2,10,000
Income Due	52,000	64,000
G-Sec	1,50,000	3,50,000
Cash	12,000	18,000
Total	47,54,000	51,78,000
Liabilities	2005-06	2006-07
Share Capital	20,00,000	21,00,000
Reserves and Surplus	7,12,000	6,50,000
Loan from Bank	5,84,000	7,52,000
8% Debentures	5,00,000	6,50,000
Sundry Creditors	5,23,000	5,00,000
Bills Payable	1,55,000	2,19,000
Outstanding Expenses	55,000	56,000
Bank Overdraft	2,25,000	2,51,000
Total	47,54,000	51,78,000

The profit during the year was Rs. 12,50,000. Tax rate applicable is 30%.

7. The following income statement has been extracted from the books of Sarod Artisans for the year ended March 31, 2011. Present the same in an appropriate form, prepare a comparative statement and comment on the performance of the company. 20

Particulars	2010-11	2011-12
Sales	1,75,00,000	1,98,00,000
Less : Cost of Goods Sold		
Opening Stock	1,28,000	1,42,000
Purchases	68,00,000	72,50,000
Carriage	78,000	88,000
Wages	32,80,000	39,60,000
Closing Stock	(1,42,000)	(1,67,500)
Gross Profit	73,56,000	85,27,500
Less : Operating Expenses		
Administrative Expenses	21,20,000	24,75,000
Selling Expenses	18,50,000	22,50,000
Finance Expenses	3,28,000	2,84,000
Depreciation on Factory Assets	4,80,000	5,12,000
Profit Before Tax	25,78,000	30,06,500
Less : Tax	7,73,400	9,01,950
Profit After Tax	18,04,600	21,04,550

8. The following Balance Sheets are extracted from the records of Basuri Builders for the year ended March 31, 2012 : 20

Particulars	2009-10	2010-11	Particulars	2009-10	2010-11
Share Capital	7,50,000	9,00,000	Buildings	3,50,000	4,25,000
Reserves and Surplus	90,000	1,32,000	Plant and Machinery	4,80,000	5,60,000
10% Debentures	2,50,000	2,00,000	Furniture	1,05,000	1,20,000
12% Loan	2,00,000	3,00,000	Motor Car	1,20,000	1,78,000
S. Creditors	64,000	72,000	S. Debtors	3,20,000	2,80,000
Bills Payable	34,000	48,000	Prepaid Expenses	39,500	32,000
Bank Overdraft	34,000	50,000	Bank	21,000	72,000
Provision for Taxation	44,000	38,000	Cash	12,000	38,000
Proposed Dividend	37,500	45,000	Closing Stock	56,000	80,000
TOTAL	15,03,500	17,85,000	TOTAL	15,03,500	17,85,000

Additional Information :

The company earned a PAT of Rs. 1,21,000 during the year. All fixed assets are to be depreciated by 5%. Furniture worth Rs. 21,000, having book value of Rs. 30,000 was sold for Rs. 22,000. Provision for Tax is to be made at Rs. 54,000. The company declared a dividend of 20% on the opening capital balance during the year.