CBCS SCHEME

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15ME743

Seventh Semester B.E. Degree Examination, Dec.2019/Jan.2020
Financial Management

Time: 3 hrs. Max. Marks: 80

Note: Answer any FIVE full questions, choosing ONE full question from each module.

Module-1

1 a. Define book keeping. Mention the three types of accounts with examples. **(04 Marks)**

b. Computer care Ltd. Provides the following transactions. You are required to prepare journal entries and post entries in ledger on August 31st

August 1	Deposited Rs.40,000 in the Company's Bank account in exchange of 4000 shares
2	Paid two months office rent in advance Rs.2200
3	Bought testing equipment on credit Rs.6500
4	Bought office supplies for cash, Rs.480
7	Received fees for services provided Rs.6900
13	Ordered testing equipment Rs.3200
16	Paid assistants salaries for first fortnight Rs.2300
19	Billed customers for service provided Rs.9700
20	Received testing equipment ordered on Aug 13, agreed to pay it on Sept 5
28	Paid telephone bill for the month Rs.390
29	Received cash for services to be provided later Rs.2700
30	Paid assistants salaries for second fortnight Rs.2300

(12 Marks)

OR

2 a. Explain in detail forms of organization. **(10 Marks)**

b. Define the terms: i) Excise duty ii) Central sales tax iii) VAT iv) Service tax v) Direct ax vi) Indirect tax **(06 Marks)**

Module-2

3 a. Explain the factors influencing the working capital requirement. **(06 Marks)**

b. From the following data compute the duration of the operating cycle for each of the two years and comment on increase/decrease:

Particulars	Years 1 (Rs)	Year 2 (Rs)
Stocks		
Raw Material	20000	27000
Work in progress	14000	18000
Finished goods	21000	24000
Purchase of Raw material	96000	135000
Cost of goods sold	140000	180000
Sales	160000	200000
Debtors	32000	50000
Creditors	16000	18000

Assume 360 days/year for operating cycle. **(10 Marks)**

OR

4 a. Explain the need for long term financing. **(06 Marks)**
b. Discuss various sources of long-term finance of Indian companies. **(10 Marks)**

Module-3

5 a. Explain the process of capital budgeting in detail. **(10 Marks)**
b. Discuss briefly the factors which affects investments decisions. **(06 Marks)**

OR

6 Write a note on: i) Current Asset Management ii) Wealth Management. **(16 Marks)**

Module-4

7 a. What do you mean by risks in financial decision state different types of risks is financial decision. **(06 Marks)**
b. The following table gives dividend and share price data for Hind manufacturing company:

Year	Dividend/share	Closing share/price
1994	2.5	12.25
1995	2.5	14.2
1996	2.5	17.5
1997	3	16.75
1998	3	18.45
1999	3.25	22.45
2000	3.5	23.5
2001	3.5	27.75
2002	3.5	25.5
2003	3.75	27.95
2004	3.75	31.30

Determine:
i) Annual rate of return
ii) Expected average rate of return
iii) Variance
iv) Standard deviation of return **(10 Marks)**

OR

8 a. From the following information prepare balance sheet of X. Co. Ltd.
i) Current ratio 2.5:1
ii) Liquid ratio 1.75:1
iii) Proprietary ratio 0.8:1 [fixed assets/proprietary funds)
iv) Working capital Rs 1,20,000
v) Reserves and surplus Rs 30,000
vi) Debtors and cash are in the ratio of 3:2
vii) Creditors and bills payable are in the ratio 4:1
There was no other current or long term liability. **(10 Marks)**
b. Define the following terms:
i) Current ratio
ii) Inventory turnover ratio
iii) Gross profit ratio
iv) Debt-equity ratio
v) Solvency ratio
vi) Debtors turnover ratio. **(06 Marks)**

Module-5

9 a. Differentiate between job costing and process costing. (06 Marks)

b. From the following data prepare a cost sheet and net profit for the given month:

Raw material purchase	66000
Direct wages	52500
Stock of raw materials [1.9.18]	75000
Stock of raw materials [30.9.18]	91500
Stock of finished goods [1.9.18]	54000
Stock of finished goods [30.9.18]	31000
Stock of work in progress [1.9.18]	28000
Stock of work in progress [30.9.18]	35000
Sales	211000
Indirect wages	2750
Factory rent	15000
Depreciation on plant and machinery	3500
Direct expenses	1500
Sundry factory expense	10,000
Salesman salary	6500
Office rent	2500
Sundry Office Expenses	6500
Advertisement	3500
Carriage outwards	2500

(10 Marks)

OR

10 a. Define the term 'Budget' and mention the advantages and disadvantages of budgeting. (06 Marks)

b. From the following forecast of income and expenses for half yearly ended with 30th June 2018 prepare cost budget.

Month	Credit sales	Credit purchase	Wages	Manufacturing expenses	Administrative expenses	Sales and distribution expenses
2017 Nov	25000	10000	2500	1100	1000	600
Dec	30000	15000	2800	1200	975	650
2018 Jan	20000	10000	2000	1250	1060	550
Feb	25000	15000	2200	1150	1040	650
Mar	30000	17000	2400	1300	1105	750
April	35000	20000	2600	1350	1120	800
May	40000	22000	2800	1450	1180	825
June	45000	25000	3000	1500	1185	875

i) Sales commission of 5% of total sales to be paid in two months
ii) Plant purchased on 1st Jan for Rs.10000 payment immediately
iii) New building purchased in Feb for R.80000 payable in two half yearly installments [First one is in Feb]
iv) Divided of Rs.5000 is paid in April
v) Period of credit allowed by debtors and creditors is 2 months.
vi) Lag in the payment of wages is 1/8th of month.
vii) Lag in the payment of expenses is 1 month
viii) Cash balance on 1st Jan is Rs.37500 (10 Marks)

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Signature of Scrutinizer

Scheme & Solution

Subject Title: financial Management **Subject Code:** 15 ME743

Question Number	Solution	Marks Allocated
1 a)	i) Book Keeping defination – "Book Keeping is the Science and art of Correctly recording in books of aCcount all those business transaction that result in the transfer of money or money's worth" – by RN Carter — 1M * Three types of Accounts with brief Explanation i) Personal A/c ÷ Ex:- Mahesh A/c, City enterprise A/c ii) Real A/c ÷ Ex:- furniture A/c, Cash A/c iii) Nominal A/c :- Discount A/c, free Samples A/c — 3x1 = 3M	1+3 =4M
1 b)	*) preparation of Journal Entries as below — 6M * posting those entries in to ledger as below – 6M	12M

Journal Entries
(In the book of Computer Care Ltd)

Date	Particulars		LF	Dr (Rs)	Cr (Rs)
Aug 1	Bank A/c	Dr		40,000	
	To Share Capital A/c				
	[Being deposited 40000 in the Company's Bank A/c]				40,000
Aug 2	prepaid office Rent A/c	Dr.		2200	
	To Cash A/c				
	[Being paid office rent in advance]				2200
Aug 3	Testing Equipment A/c	Dr		6500	
	To Creditors A/c				
	[Being bought testing equipment on Credit]				6500
Aug 4	office supplies A/c	Dr		480	
	To Cash A/c				
	[Being bought office supplies for cash]				480
Aug 7	Cash A/c	Dr		6900	
	To Revenue from Service A/c				6900
	(Being revenue received from service provided]				
Aug 16	Salaries A/c	Dr		2300	
	To Cash A/c				2300
	(Being paid assistance salaries)				

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Subject Title: Financial Management Subject Code: 15ME743

Question Number	Solution	Marks Allocated

Date	Particulars	LF	Dr. (Rs)	Cr (Rs)
Aug 19	Debtors A/c Dr To Revenue from Service A/c (Billed Customers for Service provided)		9700	9700
Aug 20	Testing Equipment A/c Dr To Creditors A/c [Being received testing eqp which ordered for 3200]		3200	3200
Aug 28	Telephone Expenses A/c Dr To cash A/c (Being paid telephone bill)		390	390
Aug 29	Cash A/c To Advance from Customer A/c (Being Cash received for providing later services)		2700	2700
Aug 30	Salaries A/c To Cash A/c [Being salaries paid for Second fortnight]		2300	2300

Ledger

Dr ① Bank A/c Cr

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
Aug 1	To Share Capital A/c		40000	Aug 31	By Balance c/d		40,000
			40,000				40,000
	To Balance b/d						

② Share Capital A/c

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
Aug 31	To Balance c/d		40000	Aug 1	By Bank A/c		40,000
			40000				
					By Balance b/d		40,000

③ Advance Office Rent A/c

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
Aug 2	To Cash A/c		2200	Aug 31	By Balance c/d		2200
			2200				2,200
	To Balance b/d		2,200				

④ Cash A/c

Date	Particulars	J.F	Amount	Date	Particulars	J.F	Amount
Aug 7	To Revenue from Service A/c		6900	Aug 2	By Advance office Rent A/c		2200
Aug 29	To Advance from Customer A/c		2700	Aug 4	By office supplies A/c		480
				Aug 16	By Salaries A/c		2300
				Aug 28	By Telephone Expenses A/c		390
			9600	Aug 30	By Salaries A/c		2300
	To Balance b/d		1930	Aug 31	By Balance c/d		1930
							9600

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Question Number	Solution	Marks Allocated

Dr / Cr

Date	Particulars	JF	Amt	Date	Particulars	JF	Amt
	(5) Testing Equipment A/c						
Aug 3	To Creditors A/c		6500	Aug 1	By Balance c/d		9700
Aug 20	To Creditors A/c		3200				
			9700				9700
	To Balance b/d		9700				
	(6) Creditors A/c						
Aug 31	To Balance c/d		9700	Aug 3	By Testing Eqp A/c		6500
				Aug 20	By Testing Eqp A/c		3200
			9700				9700
					By Balance b/d		9700
	(7) Office Supplies A/c						
Aug 4	To Cash A/c		480	Aug 31	By Balance c/d		480
			480				480
	To Balance b/d		480				
	(8) Revenue from Service A/c						
Aug 31	To Balance c/d		16600	Aug 7	By Cash A/c		6900
				Aug 19	By Debtors A/c		9700
							16600
					By balance b/d		16600
	(9) Salaries A/c						
Aug 16	To Cash A/c		2300	Aug 31	By Balance c/d		4600
Aug 30	To Cash A/c		2300				
			4600				
	To Balance b/d		4600				
	(10) Debtors A/c						
Aug 19	To Revenue from service A/c		9700	Aug 31	By Balance c/d		9700
	To Balance b/d		9700				
	(11) Telephone Expence A/c						
Aug 28	To Cash A/c		390	Aug 31	By Balance c/d		390
	To Balance b/d		390				
	(12) Advance from Customer A/c						
Aug 31	To Balance c/d		2700	Aug 29	By Cash A/c		2700
			2700				2700
					By Balance b/d		2700

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Question Number	Solution	Marks Allocated
2 a)	Brief Expleination about Salient Characterstics, advantages & disadvanges of following forms of organization 1) Sole proprietorship 2) Joint hindu family business 3) partnership 4) Co-operative societies 5) Joint stock Company → [each Carry 2M 2x5]	10
b)	Defination of following [each Carry 1 M = 6x1=6M] i) Excise duty :- An Excise or excise tax is a type of tax charged on goods produced with in Country ii) Central Sales tax :- it is a tax on sales of goods levied by the Central Govt of India. CST is applicable only in the Case of inter-state sales and not on sales made with in the state. iii) VAT :- It is a form of Consumption tax; from buyers point of view, it is a tax on the purchase price. & from the seller point of view it is a tax only on the value added to a product, material or service. iv) Service tax :- It is the tax imposed by Govt of India on the Services provided in India. The service provider Collects the tax & pays the same to the govt. v) Direct tax :- Taxes that are levied on the income of individuals or organization. or tax paid directly to the govt by the persons on whom it is imposed. vi) Indirect tax :- Tax colleted by an intermediary such as retail store) from the person who bears the ultimate economic burden of the tax (such as the Customer]	6
3) a)	Brief Explaination of any six factors which influence the working Capital requirement for any organization. like Nature of Business, Production cycle, Credit Control, firm's policy, Attitude of Risk, Business	6

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Question Number	Solution	Marks Allocated
	Turnover, Inventory turnover, Manufacturing time & so on. [any six factors each carry 1M = 6x1]	
3 b)	Solution of the problem on determination of operation cycle	

Particulars	Y_1 (days)	Y_2 (days)	Marks Allocated
1) Rawmaterial holding period $\left[\frac{360 \times \text{stock of RM}}{\text{Cost of RM Consumed}}\right]$	$\frac{360 \times 20000}{96000} = 75$	$\frac{360 \times 27000}{135000} = 72$	10
2) less Creditors payment period $= \left[\frac{360 \times \text{creditors}}{\text{purchases}}\right]$	$\frac{360 \times 16000}{96000} = 60$	$\frac{360 \times 18000}{135000} = 48$	
3) WIP holding period $\left[\frac{360 \times \text{stock WIP}}{\text{Cost of goods manufactured}}\right]$	$\frac{360 \times 14000}{140000} = 36$	$\frac{360 \times 18000}{180000} = 36$	
4) Finished goods holding period $= \left[\frac{360 \times \text{Stock of finished goods}}{\text{Cost of good sold}}\right]$	$\frac{360 \times 21000}{140,000} = 54$	$\frac{360 \times 24000}{180000} = 48$	
5) Debtors Collection period $= \left[\frac{360 \text{ days} \times \text{Debtors}}{\text{Credit sales}}\right]$	$\frac{360 \times 32000}{160,000} = 72$	$\frac{360 \times 50000}{200,000} = 90$	
Operating cycle Period	= 177 days	198 days.	

Comment:- In 2nd year, operating cycle duration has increased by 21 days, which will necessitate more working capital in 2nd year. This increase is

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Question Number	Solution	Marks Allocated
	due to increase in debtors Collection period.	
	[each period Carry 2M = 2X5=10]	
	(or)	
4a)	Need to explain, why long term Capital / finance is needed for any firm. with Explaination of important points like	6
	i) Purchase of New asset / equipment	
	ii) To finance the permanent part of the working Capital.	
	iii) To enhance the cash flow in the firm	
	iv) To invest in R&D operations	
	v) To build new projects	
	vi) To Expand business operations	
	[any six points each Carry one mark 6x1=6]	
4b)	Detailed Explaination of any five sources of long-term finance used by Indian Companies like i) Share Capital	10
	ii) Debentures	
	iii) public deposits	
	iv) Retained Earnings	
	v) lease financing & soon	
	[Need to Explain features, merits & demerits of each] [each Source Carry 2M = 2X5 = 10]	
5a)	Detailed Explaination of following steps which are involved in the process of Capital budgeting.	10
	I project Generation	
	a) Identification of Investment proposals	

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Question Number	Solution	Marks Allocated
	b) Screening of proposals II project evaluation c) Evaluation of various proposals III project selection d) fixing priorities e) final Approval & preparation of Capital Expenditure Budget IV Project Execution f) Implementing proposals g) performance Review. [step I & II Carry 2 M each & step III & IV Carry 3 M each ∴ 4+6 = 10	
b)	Brief Explaination of any Six factors which affect Investment decision like i) Management out looks ii) Competitors strategy iii) opportunities Created by techonological change iv) Market forecast v) fiscal Incentives vi) Cash flow budget vii) Non economic factors. [any Six pt from above each Carry one Mark] 1×6=6	6
	(or)	
6)	Detailed explaination about the need, procedure of (i) Current Asset & ii) wealth management, advantages [each Carry 8 marks = 8×2]	16

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Question Number	Solution	Marks Allocated
7a)	Risk may be defined as "The possibility that the actual outcome of an investment will differ from its Expected out Come"	
	Types of Risk are with brief Explaination.	
	i) physical Risk ii) Technical Risk iii) Economic Risk iv) political risk v) Business Risk vi) financial risk vii) cyclical risk viii) purchasing risk ix) Interest rate risk x) Stock price risks xi) Tax law risk xii) foregin Exchange risk. & so on.	6
	[Defination – 2 marks & types of risk any 8, each Carry 1/2 M ⟹ 4 M = 2+4]	
b)	solution for the problem given	

Year	Dividend Share	Closing Share price	Annual rate of return %, (R_i)	$R_i - \bar{R}$	$(R_i - \bar{R})^2$
1994	2.5	12.25	—	—	—
1995	2.5	14.2	$\frac{2.5+(14.2-12.25)}{12.25} = 36.33$	9.84	96.86
1996	2.5	17.5	40.85	14.36	206.22
1997	3	16.75	12.86	-13.63	185.71
1998	3	18.45	28.06	1.57	2.48
1999	3.25	22.45	38.21	11.73	137.51
2000	3.5	23.5	21.35	-5.14	26.38
2001	3.5	27.75	32.98	6.49	42.17
2002	3.5	25.5	45	-21.98	483.13
2003	3.75	27.95	24.31	-2.17	4.71
2004	3.75	31.3	25.4	-1.08	1.17
			264.85		1186.36

i) Annual rate of Return in % is tabulated as shown above.

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Question Number	Solution	Marks Allocated
	ii) Average rate of Return $= \bar{R} = \frac{1}{n}\sum_{i=1}^{n} R_i$ $= \frac{[36.33+40.85+12.86+28.06+38.22+21.35+32.98+4.5+24.31+25.4]}{10}$ $\bar{R} = 26.48\%$ iii) Variance $= \sigma^2 = \frac{1}{n-1}\sum_{i=1}^{n}(R_i-\bar{R})$ $= \frac{1}{10-1}(1186.36)$ $= 131.82$ iv) Standard deviation (σ) $\sigma = \sqrt{\sigma^2} = \sqrt{131.82} = 11.48\%$ [Annual rate of return tabulated in table — 4 M Average rate of Return — 2 M Variance — 2 M Standard deviation — 2 M]	10
	(OR)	
8) a)	i) Working Capital = Current Assets − Current liabilities $WC = 2.5 - 1.0 = 1.5$ i.e Rs 1,20,000 [$= \frac{1}{2}$M] ii) Current Assets = CA = $WC(1.5) =$ Rs 120000 $\therefore CA(2.5) = ? = \frac{2.5}{1.5} \times 120,000 = 2,00,000$ Rs [$= \frac{1}{2}$M] iii) Current liabilities (CL) $CA(2.5) =$ Rs 2,00,000 $\therefore CL(1.0) = ? = \frac{1.0}{2.5} \times 2,00,000 =$ Rs 80,000 [$= \frac{1}{2}$M] iv) Liquid Assets (LA) $= WC(1.5) =$ Rs 1,20,000 $\therefore LA(1.75) = ? = \frac{1.75}{1.5} \times 120,000 =$ Rs 1,40,000 [$= \frac{1}{2}$M] v) Stock = CA − CL $= 60,000$ [$= \frac{1}{2}$M]	10

Question Number	Solution	Marks Allocated
	6) Debtors & Cash (given Ratio of 3:2]	
	∴ Debtors = $\frac{3}{5} \times 140000 = 84000$	
	Cash = $\frac{2}{5} \times 140{,}000 = 56000$ —[2M]	
	7) Creditors & Bills payable (Ratio given as 4:1)	
	Creditors = $\frac{4}{5} \times 80{,}000 = 64000$ Rs	
	Bills payable = $\frac{1}{5} \times 80{,}000 = 16000$ Rs [— 2M]	
	8) Fixed Assets & Share Capital [given $\frac{FA}{PF} = 0.8:1$]	
	Share Capital = Proprietory funds − Reserves & Surplus = 5,70,000	
	Fixed Assets = Propritory funds − working Capital = 4,80,000 [— 2½M]	
	Balance sheet	

Liabilities	Rs	Assets	Rs
Share Capital	5,70,000	Fixed Assets	4,80,000
Reserves & Surplus	30,000	Current Assets	
Current Liabilities		Stock	60,000
Creditors	64000	Debtors	84,000
Bills payable	16000	Cash	56,000
	6,80,000		680,000

[— 2M]

8b) Definition of following Six ratios [each Carry 1M] — 6M

i) Current ratio : $\frac{\text{Current Asset}}{\text{Current liabilities}}$

ii) Inventory turnover = $\frac{\text{Cost of goods sold}}{\text{Avg Inventory}}$

iii) Gross profit = $\frac{\text{Gross profit}}{\text{Net sales}} \times 100$

iv) Debt-equity Ratio = $\frac{\text{outsiders funds}}{\text{Shareholders funds}}$

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Question Number	Solution	Marks Allocated
	v) Solvency Ratio :- $\frac{\text{Total outside liabilities}}{\text{Total assets}}$	
	vi) Debtors Turnover Ratio :- $\frac{\text{Net Annual Credit Sales}}{\text{Avg Trade Debtors}}$	
	[in each of above ratio, brief explanation is needed]	
9 a)	Any Six important difference between Job Costing & process Costing [1 x 6 = 6]	6
b)	Solution for the problem given	10

Particulars		Amount	Amount
Raw material purchase	66000		
Add opening stock of R/M	75000		
less closing stock of R/M	91500		
Actual Material consumed		49500	
Direct wages		52500	
Direct Expenses		1500	
Prime cost			103500
Indirect wages		2750	
factory rent		15000	
Depr on plant & M/cnery		3500	
Sundry factory Expenses		10000	
		31250	
+ opening stock of WIP		28000	
− Closing stock of WIP		35000	
factory overhead			24250
∴ factory cost			127750
Office rent		2500	
Sundry office Expenses		6500	
+ opening stock of finished goods		54000	
− Closing stock of finished goods		31000	
Administrative overhead			32000

Question Number	Solution			Marks Allocated
	∴ Cost of goods sold Advertisement Carriage outwards Sales & distribution overhead	6500 3500 2500	12500	
	Total Cost ∴ Total Sales Profit [sales - cost]	211000	172250 38750	
	(or)			
10 a)	Definition of budget " Comprehensive & Co-ordinated plan, expressed in financial terms, for the operations & resources of an enterprise for some specified period in the future" —— [2M]			6M
	Any four advantages & four disadvantages [each carry ½ M = 8×½ = 4M]			
	Advantages of Budgeting i) leads to maximum utilization of resources with a view to ensure maximum returns ii) leads to Co-ordination & understanding b/w diff function of organisation. iii) leads to supportive & active participation of the top mgt iv) leads to self examination & subcriticism which is essential for the success of an organization.			
	Disadvantages of Budgeting i) Installation is elaborate process & Consumes more time ii) It is an expensive tool. iii) It is not an exact science. It is only a Judgement iv) Budgeting should be followed up by an Effective Control action.			

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Question Number	Solution							Marks Allocated
10 b)	Solution for the problem given							
	Particulars	Jan	feb	March	April	May	June	
	a) opening balance	37500	36325	4790	8575	6595	12050	
	b) Receipts:- Credit sales (Debtors)	25000	30000	20000	25000	30000	35000	
	Total (a+b)	62500	66325	24790	33575	36595	47050	10M
	c) payments Purchases (Creditors)	10000	15000	10000	15000	17000	20000	
	wages	2100	2175	2375	2575	2775	2975	
	Manufacturing Expenses	1200	1250	1150	1300	1350	1450	
	Administrative "	975	1060	1040	1105	1120	1180	
	S&D Expenses	650	550	650	750	800	825	
	Sales Commission	1250	1500	1000	1250	1500	1750	
	purchase of plant	10000	—	—	—	—	—	
	purchase of new building.	—	40000	—	—	—	—	
	Dividend	—	—	—	5000	—	—	
	Total (c)	26175	61535	16215	26980	24545	28180	
	Cash (C/d) (a+b-c)	36325	4790	8575	6595	2050	18870	

Cash Budget format —— 1m
Balance for Jan —— 3M
Balance for feb — 2M
" March — 1M
April — 1M
May — 1M
Jun — 1M