

Dr. Babasaheb Ambedkar Open University
Term End Examination July-2016

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| Course | : Diploma in Financial Management (DFM) | Numerical Code: 0027 |
| Subject | : Basic Understanding of Financial Management (DFM-01) | Roll No: _____ |
| Date | : 10/07/2016 | Numerical Code: 0175 |
| Time | : 03.00 to 06.00 | |
| N.B. | : All Questions carry equal Marks | Total Marks : 70 |

Q.1. Discuss the steps involved in computing the tax liability of a business entity. (14)

OR

Write Short Note on:

- (1) Explain the concept of 'Time Value of Money'.
- (2) Explain different types of Financial Markets.

Q.2. Write Short notes on following: (14)

- (1) Bank Overdraft.
- (2) Revolving Credit

OR

Write a note on Securities for Short Term Financing?

Q.3. (1) Explain the terms 'Sweat Equity' & 'Stock Options'. (14)
(2) What is "Right Issue"? State the Advantages of Right Issue.

OR

Explain the types of Debentures.

Q.4. Explain equity shares as a source for long-term finance with benefits and limitations. (14)

OR

What are the advantages and disadvantages of the following forms of business organization.

- (a) Sole Proprietorship
- (b) Co-Operative Society
- (c) Private Company
- (d) Partnership
- (e) Public company

Q.5 What is Commercial Paper? What are the advantages and limitations of commercial - paper. (14)

OR

Write a Short Note (Any One)

- (1) Warrant as a source of long term finance.
 - (2) Hire purchase.
 - (3) Term Loan
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Course : Diploma in Financial Management (DFM)
Subject : Project Appraisal and Analytical Tools (DFM-02)

Numerical Code: 0027
Roll No: _____
Numerical Code: 0176

Date : 11/07/2016
Time : 03.00 to 06.00

N.B. : All questions carry equal Marks.

Total Marks : 70

Q.1 Explain the concept and need of ratio analysis. **(14)**

OR

The following is the balance sheet of Prithvi Ltd. As on 31-03-2003. Rearrange it in a form suitable for analysis and calculate the following ratios:

- (1) Net profit ratio
- (2) Current ratio
- (3) Proprietary ratio
- (4) Return on capital Employed
- (5) Debtors ratio
- (6) Fixed – assets turnover

Balance sheet as on 31-03-2003

| Liabilities | Rs. | Assets | Rs. |
|----------------------|------------|------------------|------------|
| Creditors | 16,000 | Cash at Bank | 26,000 |
| Bills Payable | 6,000 | Debtors | 11,000 |
| Debentures | 1,00,000 | Stock | 50,000 |
| Reserves and Profits | 69,000 | Bills receivable | 4,000 |
| Paid up capital | 1,00,000 | Fixed assets | 2,00,000 |
| | 2,91,000 | | 2,91,000 |

Other Information:

- (1) Sales - 2, 00,000 (2) Net profit - 60,000

Q.2 Alpha Ltd. is considering two development projects. Each requires an investment of Rs.5,20,000. The net profits (before depreciation) of both the projects are projected as follow.

(14)

| At the end of year | Project No.1 | Project No.2 |
|--------------------|--------------|--------------|
| | Rs. | Rs. |
| 1 | 1,30,000 | 2,60,000 |
| 2 | 1,85,000 | 2,50,000 |
| 3 | 1,87,500 | 65,500 |
| 4 | 1,25,000 | 62,500 |

Determine with the help of net present value method which of the projects is preferable calculate profitability on the basic of the present value of the cash flows 5% rate of discount.

The present value of rupee at 5% discount is as follows.

First year Rs.0.9524

Second year Rs.0.9070

Third year Rs.0.8638

Fourth year Rs.0.8227

OR

Explain the concept of decision trees?

Q.3 Explain the benefits of fund flow statement **(14)**

OR

What are the limitation of cash flow statement?

Q.4 What are the typical contents of lease agreements. **(14)**

OR

What is ZBB? State it's advantages and limitation.

Q.5 Write a note on Contribution of different agencies providing services of credit rating. **(14)**

OR

What are the reasons for which risk reducing measure to be used in capital budgeting?

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Course : Diploma in Financial Management (DFM) **Numerical Code: 0027**
Roll No: _____
Subject : Policy Matters Financial Management (DFM-03) **Numerical Code: 0177**
Date : 12/07/2016
Time : 03.00 to 06.00
N.B. : All questions carry equal Marks. **Total Marks : 70**

Q.1. Explain the concept of Weighted average cost of Capital. (14)

OR

Vision world Ltd. issues 11% redeemable preference shares of Rs. 100 each, to be redeemed after 10 years. The floatation cost is estimated at 4% of the expected sale proceeds. Compute the cost of preference capital, if the rate of taxation is 50%

Q.2. Explain the term operating leverage, financial leverage, total leverage. (14)

OR

A simplified income statement of zodiac ltd. is given below. Calculate and interpret its degree of operating leverage, financial leverage and degree of combined leverage.

Zodiac Ltd.

Income Statement for the year to 31-3-2004

| Particulars | Rs. |
|--------------------|---------------|
| Sales | 10,00,000 |
| Variable cost | 7,50,000 |
| Fixed cost | <u>75,000</u> |
| EBIT | 1,75,000 |
| Interest | 60,000 |
| Taxes(30%) | <u>34,500</u> |
| Net income | 80,500 |

Q.3. Explain net income theory in capital structure studies. (14)

OR

R Ltd. and S Ltd. both companies belong to the homogenous risk group. Both companies are identical in all respects except that A is a levered company, while B is an unleveled company. The capital structure of the levered company A includes 10% debentures of Rs. 5, 00,000. The total assets of both the companies are Worth Rs. 12,00,000 and both earn 15% return before taxes and interest on their assets.

Assuming that capital market is perfect, investors behave rationally, tax rate is 50 percent and rate of equity capitalization is 15% compute the following:

- (1) The value of company R and S on the basis of the Net Income Approach.
- (2) The value of both these companies on the basis of the Net operating Income approach.

Q.4. Explain Bird in hand theory **(14)**

OR

Explain the constant payout ratio as dividend Policy.

Q.5. Write a Short Note. (Any Two) **(14)**

1. Explain dividend yield method of calculating cost of capital.
 2. Explain various types of structural leverages.
 3. Explain arbitrage process in MM theory in capital structure Studies.
 4. Explain Gordon's dividend Growth model for share valuation.
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Course : Diploma in Financial Management (DFM)

Numerical Code: 0027

Subject : Working Capital Management (DFM-04)

Roll No: _____

Numerical Code: 0178

Date : 13/07/2016

Time : 03.00 to 06.00

N.B. : All questions carry equal Marks.

Total Marks : 70

Q.1. Explain the objectives for working capital management.

(14)

OR

A Performa cost sheet of Kalyan Ltd. Is given below:

| | Per Unit Rs. |
|---------------|---------------------|
| Raw material | 80 |
| Direct Labour | 30 |
| Overheads | <u>60</u> |
| Total cost | <u>170</u> |
| Profit | <u>30</u> |
| Selling Price | 200 |

The following further particulars are available.

- (1) Raw materials are in stock on average for two month. Materials are in Process on average for half month. Finished goods are in stock on average For half month.
- (2) Credits allowed by suppliers, is two month. Credit allowed to debtors is two month.
- (3) Lag in payment of wages is $1\frac{1}{2}$ weeks lag in payment of overhead is one month.
- (4) One – fourth of the output is sold against cash. Cash on hand and at bank is expected to be Rs. 2,00,000

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. Wages and Overhead accrue similarly and a time period of 4 weeks is equivalent to a month.

Q.2. Explain the ABC analysis.

(14)

OR

Moon Ltd. Is contemplating to allow 4% cash discount for payment prior to the 15th day after a credit purchase by a customer. It is expected that due to this policy the sales would increase by 20 percent. Assume that bad debts will not be affected. The collection period will decline to 20 days. The estimate 50% of the total sales would be on discount should the proposed plan be implemented if expected rate of return is 15%.

Q.3. Write a note on FSND method for inventory management. **(14)**

OR

Calculate the economic Order Quantity from the following data of Moon Ltd.

| | |
|----------------------------------|--------------|
| Annual Consumption of a Material | 12,500 units |
| Price per Unit | Rs. 5 |
| Insurance cost per Unit | Rs. 0.70 |
| Internet cost per Unit | Rs. 0.20 |
| Storing cost per Unit | Rs. 0.10 |
| Cost of placing an Order | Rs. 10 |

Q.4. Discuss the utility of Cash budget as a tool of cash management. **(14)**

OR

From the following information prepare a monthly cash budget for Ravish Ltd. For 3 months ending 31st March:

- (1) Revenue is expected to be Rs. 90,000 , Rs. 92,000 and Rs. 90,000 in the three months.
- (2) Purchase for December, January, February and March are likely to be Rs. 80,000 , Rs. 60,000 , Rs. 65,000 and Rs. 70,000 respectively 40% is paid in next month.
- (3) Rent per month is Rs. 4,000 and personal withdrawal Rs. 6,000
- (4) Rs. 35,000 is expected to be outflows towards purchase of a vehicle in the month of March.
- (5) Cash expenses are Rs. 14,000 for each month.
- (6) Present Cash balance is Rs. 15,000.

Q.5. Write Short note (Any Two) **(14)**

1. VED analysis for inventory management.
 2. 'Factoring' in receivable management.
 3. Determining the credit policy.
 4. Concept of overtrading.
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