

**International Institute of Health Management Research**  
**Financial Management (CC-611)**  
**Term Examination 2016-18**

**Time: 3 hours**  
**Max. Marks : 70**

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**I. Answer all the questions: (10 X 1 = 10)**

1. Under capital budgeting, cash flows are based on opportunity cost concept.  
a. True                      b. False
2. If, Total current assets Rs. 10,00,000; Stock (included in current asset Rs.400,000; Prepaid expenses Rs. 50,000; Current liabilities Rs. 500,000 Then, Acid Test Ratio will be \_\_\_\_\_.  
a. 1.7 : 1      b. 2.8 : 1      c. 1.1 : 1      d. 1.3 : 1
3. \_\_\_\_\_ assets are mainly those assets, which are kept temporarily for resale or for converting into cash.  
a. Fixed                      b. Deferred      c. Intangible      d. Current
4. Internal rate of return is the rate at which the net present value of the investment is zero.  
a. True                      b. False
5. If, Project cost Rs. 550,000; life of the project 5 years and salvage value is zero. Then, reducing balance depreciation for first year will be \_\_\_\_\_,  
a. Rs. 110,000      b. Rs. 150,000      c. Rs. 100,000      d. Rs. 125,000
6. \_\_\_\_\_ is also called as cashing per share maximization.  
a. Wealth maximization      b. Profit maximization      c. Working capital      d. Equity capital
7. Sales – Variable cost = \_\_\_\_\_  
a. Fixed cost                      b. Profit                      c. Contribution                      d. Loss
8. \_\_\_\_\_ is an operating budget that documents expected expenses such as remuneration for employees, medical supplies, travelling cost etc., during the budgeted period.  
a. Profit budget      b. Master budget      c. Flexible budget      d. Expenses budget
9. The following classes of costs are usually involved in inventory decisions except –  
a. Cost of ordering      b. Carrying cost      c. Cost of Shortage      d. Establishment cost
10. Which financial statement is used to show the position of a company on a specified date?  
a. Income Statement      b. Cash flow statement      c. Statement of retained earnings  
d. Balance sheet.

**II. Answer any three questions: (3 X 5 =15)**

1. What are the different methods of evaluating capital budgeting proposals?

- Briefly discuss the functions of financial management.
- From the following information, find the amount of profit earned during the year using marginal cost technique:

Fixed cost = Rs. 550,000

Variable cost = Rs. 13 per unit

Selling price = Rs. 18 per unit

Output level= 140,000 units

- You have been supplied data of XYZ, Bangalore for the year ending March 31<sup>st</sup>, 2014. Indicate its strength and weakness in terms of liquidity and solvency through your analysis.

Balance Sheet as on 31<sup>st</sup> March 2014

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Equity Share Capital	100,000	Plant & Equipments	151,000
10% Preference Share capital	40,000	Cash	12,300
Retained earnings	27,400	Debtors	36,000
Long-term debt	34,000	Stock	60,800
Sundry creditors	31,500		
Outstanding expenses	1,200		
Other current liabilities	26,000		
	<u>260,100</u>		<u>260,100</u>

- From the following information of CKC & Co., prepare the stores ledger account under FIFO method for November 2016.

1 Nov	Opening stock balance 5000 units at Rs. 30 each
4 Nov	Purchased 4000 units at Rs. 32 each
6 Nov	Issued 4300 units
10 Nov	Purchased 9000 units at Rs. 35 each
12 Nov	Issued 5400 units
18 Nov	Issued 3000 units
24 Nov	Purchased 5800 units at Rs. 34 each
28 Nov	Issued 4000 units

- One project of ABC firm is doing poorly and is being considered for the replacement. The cash flow for this proposal is expected to be Rs. 300,000. The anticipated cash inflows after taxes (CFAT) of the investment proposal are as follows:

Year	CFAT (Rs.)
1	50000
2	90000
3	108000
4	120000
5	200000

Calculate IRR for the above proposal.

### III. Answer any three questions:

(3X 15= 45)

- Explain in brief various inventory management techniques. Illustrate with examples.

2. ABC Company has received 3 investment proposals. The after tax cash flows for each are tabulated below. If the cost of capital is 12 percent, rank them on the basis of payback period, NPV and PI. Comment on the results.

Year	Project - X	Project - Y
0	(Rs. 200,000)	(Rs. 360,000)
1	46,000	140,000
2	60,000	160,000
3	78,000	178,000
4	85,000	192,000

3. Prepare a flexible budget for overheads on the basis of the following data. Ascertain the overhead rates at 40 %, 60% and 80 % capacity utilization.

Particulars	At 60 % capacity (Rs.)
<i>Variable overheads:</i>	
Indirect Material	60,000
Indirect labour	180,000
<i>Semi-variable overheads:</i>	
Electricity (40% fixed)	5000
Repairs (80% fixed)	3000
Internet (30% fixed)	4000
<i>Fixed overheads:</i>	
Depreciation	16500
Insurance	4000
Salaries	65000
Rent and Taxes	6000

Estimated direct labour hours – 12600

4. In a drug factory producing two different kinds of medicines, the limiting factor is the availability of labour. From the following information, show which product is more profitable.

Cost per unit - Database

Particulars	A	B
Material	50.00	50.00
Labour:		
6 hours at 5.00	30.00	
3 hours at 5.00		15.00
Overheads:		
Fixed (50% of labour)	15.00	7.50
Variable	15.00	15.00
Selling price	135.00	115.00
Total production for the month	7500 units	9000 units

Maximum capacity per month = 4200 hours. Calculate the profitability of both the products and justify your results.

5. Prepare a cash budget of a company for the months of April, May and June 2016 in a columnar form using the following information:

Month	Sales (Rs.)	Purchases (Rs.)	Salaries (Rs.)	Expenses (Rs.)
January (A)	80,000	45,000	20,000	5,000
February (A)	80,000	40,000	18,000	6,000
March (A)	75,000	42,000	22,000	6,000
April (B)	90,000	50,000	24,000	7,000
May (B)	85,000	45,000	20,000	6,000
June (B)	80,000	35,000	18,000	5,000

Note: (A) Actual; (B) Budgeted

Additional information:

- 10 % of the purchases and 20 % of the sales are for cash.
  - The average collection period of the company  $\frac{1}{2}$  month and the credit purchases are paid off regularly after one month.
  - Salaries and expenses paid following month.
6. From the following Trial balance prepare Final accounts in the books AVB Company, Hyberbad as on 31<sup>st</sup> March 2015.

Particulars	Debit (Rs.)	Credit (Rs.)
Purchases	15,00,000	
Opening Stock	300,000	
Wages	200,000	
Carriage inwards	50,000	
Salaries	170,000	
Insurance	10,000	
General charges	27,000	
Machinery	250,000	
Debtors	150,000	
Cash at SBI Bank	50,000	
Cash in hand	50,000	
Drawings	50,000	
Capital		600,000
Sales		20,00,000
Creditors		207,000
Total	2807000	2807000

Adjustment:

- Insurance Rs. 3000 is prepaid.
  - Provide 10 percent depreciation for Machinery
  - Provide 2 percent reserve for doubtful debts on debtors.
  - Closing stock was valued at Rs. 370,000.
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