

10ME767

Seventh Semester B.E. Degree Examination, Dec.2014/Jan.2015

Finance Management

Time: 3 hrs.

Max. Marks: 100

Note: Answer FIVE full questions, selecting at least TWO questions from each part.

PART – A

- 1 a. Define financial management. Explain the different forms of organization with features. (10 Marks)
- b. Write a note on central sales tax, value added tax and service tax with examples. (10 Marks)
- 2 a. Define risk. Explain the components of risk. (10 Marks)
- b. The possible returns from two securities and their probabilities are as follows:

| Security – A | | Security – B | |
|-----------------|-------------|-----------------|-------------|
| Possible Return | Probability | Possible Return | Probability |
| 15% | 0.50 | 12% | 0.60 |
| 17% | 0.20 | 20% | 0.20 |
| 19% | 0.10 | 22% | 0.10 |
| 20% | 0.20 | 34% | 0.10 |

Estimate the expected return from the securities. Which of the two securities has lesser risk? (10 Marks)

- 3 a. Define working capital management. What are the factors affecting WCM? (10 Marks)
- b. From the following particulars extracted from the books of manufacturing company, compute operating cycle in days:

| | |
|---|---------------|
| Period covered | 365 days |
| Average period of credit allowed by creditors | 10 days |
| Average debtors | ₹ 6,00,000 |
| Raw materials consumed | ₹ 48,00,000 |
| Cost of production | ₹ 1,20,00,000 |
| Cost of finished goods sold | ₹ 1,50,00,000 |
| Sales | ₹ 1,80,00,000 |
| Value of average stock maintained: | |
| • Raw materials | ₹ 4,00,000 |
| • Work in progress | ₹ 3,00,000 |
| • Finished goods | ₹ 5,00,000 |

(10 Marks)

- 4 a. Distinguish between: primary market and secondary market. (05 Marks)
- b. What do you mean by preference shares? Explain the different types of preference shares. (15 Marks)

PART – B

- 5 a. Define book keeping. Pass the journal entries for the following transactions in the books of Mr. A.

| | | |
|---------------------------|--|------------|
| Jan 01 st 2014 | Started business with ₹ 1,00,000 | |
| Jan 08 th 2014 | Purchased goods worth ₹ 50,000; less cash discount of 10% | |
| Jan 09 th 2014 | Sold goods to Mr. B for ₹ 60,000 in cash | |
| Jan 18 th 2014 | Purchased goods from Mr. C ₹ 25,000 | |
| Jan 20 th 2014 | Cash deposited into bank ₹ 10,000 | |
| Jan 25 th 2014 | Cash withdrawn for personal use ₹ 2000 | |
| Jan 31 st 2014 | Paid salary ₹ 6000, rent ₹ 800 and electricity bill ₹ 200. | (10 Marks) |

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- b. The following balances were extracted from the books of M/S Sunil Traders as on 31.03.2014 (in ₹).

| Particulars | Debit | Credit |
|-----------------------------|---------------|---------------|
| Purchase & Sales | 41,400 | 55,140 |
| Trade debtors & creditors | 7,250 | 3,860 |
| Stock as on 01.04.2013 | 4,120 | - |
| Balance at bank | 23,920 | - |
| Capital & Drawings | 4,600 | 39,400 |
| Motor van expenses | 510 | - |
| Motor van | 6,250 | - |
| Rent & rates | 750 | - |
| Salaries | 8,120 | - |
| Reserve for doubtful debts | - | 250 |
| Bad debts | 230 | - |
| General expenses | 1,120 | - |
| Discount allowed & received | 1,050 | 910 |
| Insurance | 240 | - |
| TOTAL | 99,560 | 99,560 |

Adjustments:

- Stock as on 31.03.2014 was valued at ₹ 5040.
- Insurance paid in advance ₹ 40.
- Outstanding salaries ₹ 820
- Depreciation on motor van to be made at 10%.

Prepare trading, profit & loss account and balance sheet for the year ending 31.03.2014.

(10 Marks)

- 6 a. From the following data, prepare cost sheet for the month of March 2014.

| Particulars | Amount (₹) |
|----------------------------------|------------|
| Opening stock of raw materials | 20,000 |
| Opening stock of work-in-process | 15,000 |
| Opening stock of finished goods | 25,000 |
| Closing stock of raw materials | 15,000 |
| Closing stock of work-in-process | 10,000 |
| Closing stock of finished goods | 30,000 |
| Raw material purchased | 1,00,000 |
| Wages | 2,00,000 |
| Factory overheads | 50,000 |
| Office overheads | 20,000 |
| Selling overheads | 40,000 |
| Sales | 4,00,000 |

(10 Marks)

- b. Distinguish between job costing and process costing. Also calculate the material variance from the following data:

Standard quantity = 2400 units
 Standard price = ₹ 2.50 per unit
 Actual quantity = 2500 units
 Actual price = ₹ 3.00 per unit

(10 Marks)

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- 7 a. What do you mean by ratio analysis? Explain the different types of ratios. (10 Marks)
- b. From the following data, calculate:
- Current ratio
 - Operating ratio
 - Gross profit ratio
 - Net profit ratio

Current assets = ₹ 100000

Current liabilities = ₹ 60000

Sales = ₹ 800000

Cost of goods sold = ₹ 300000

Operating expenses = ₹ 100000 (10 Marks)

- 8 a. What do you mean by budgetary control? State the advantages and limitations of budgetary control. (10 Marks)

- b. The expenses budgeted for production of 10000 units in a factory are furnished below:

| Particulars | Amount |
|-----------------------------------|------------------|
| Materials | ₹ 70.00 per unit |
| Labour | ₹ 25.00 per unit |
| Variable overheads | ₹ 20.00 per unit |
| Fixed overheads (₹ 100000) | ₹ 10.00 per unit |
| Selling expenses (10% fixed) | ₹ 13.00 per unit |
| Variable expenses (direct) | ₹ 5.00 per unit |
| Distribution expenses (20% fixed) | ₹ 7.00 per unit |
| Administrative expenses (₹ 50000) | ₹ 5.00 per unit |

Prepare a budget for the production of : (i) 8000 units and (ii) 6000 units. Assume the administrative expenses are rigid for all levels of production. (10 Marks)
