



‘समानो मन्त्रः समितिः समानी’

UNIVERSITY OF NORTH BENGAL

B.Com. Honours Part-III Examination, 2022

B.COM.

PAPER-3H7

FINANCIAL MANAGEMENT AND FINANCIAL STATEMENT ANALYSIS

Time Allotted: 4 Hours

Full Marks: 100

The figures in the margin indicate full marks.

GROUP-A

Answer any four questions

15×4 = 60

2+5+5+3=15

1. (a) Define Financial Management.
(b) What are the various objectives of Financial Management?
(c) Discuss the role of Financial Manager of a firm.
(d) State the significance of Financial Management in an organization.

2. Solemn Ltd. has the following structure:

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	(₹)
14% Preference Shares of ₹10 each	20,00,000
Equity Shares of ₹25 each	50,00,000
General Reserve	25,00,000
Profit and Loss A/c	15,00,000
12% Debentures of ₹1,000 each	90,00,000
	<u>2,00,00,000</u>

Following additional information is given:

Equity Shares: Current market price per share ₹40; expected dividend per share one year from now ₹6 and this amount is expected to grow @ 5% per year thereafter.

Preference Shares: Current market price ₹9.40 per share; the shares have perpetual life.

Debentures: Current market price ₹925 per debentures; the debentures will mature 10 years from now; Interest is payable annually.

Tax Rate: 45%

You are required to compute the weighted average cost of capital for Solemn Ltd. using market values as weights.

3. (a) What is Capital Budgeting? Why is it significant for a firm? (2+3)+10=15
(b) From the following information calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%:

	Project-X	Project-Y
Initial Investment	₹20,000	₹30,000
Estimated Life	5 years	5 years
Scrap Value	₹1,000	₹2,000

The profits before depreciation and after taxes (Cash Flows) are as follows:

	Year 1 (₹)	Year 2 (₹)	Year 3 (₹)	Year 4 (₹)	Year 5 (₹)
Project-X	5,000	10,000	10,000	3,000	2,000
Project-Y	20,000	10,000	5,000	3,000	2,000

4. (a) Discuss the factors determining the working capital requirements of a firm.

5+10=15

(b) The cost structure of a product is given below:

	Amount per Unit (₹)
Raw Material	80
Direct Labour	30
Overheads	60
Total Cost	170
Profit	30
Selling Price	200

The following particulars are available:

- Raw materials are in stock on an average for one month. Materials are in process on an average for half a month. Finished goods are in stock on an average for one month.
- Credit allowed by suppliers is one month. Credit allowed to customer is two months. Lag in payment of wages is $1\frac{1}{2}$ weeks. Lag in payment of overhead expenses is one month.
- One-fourth of the output is sold against cash. Cash in hand and at bank is expected to be ₹25,000.

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

5. (a) What do you mean by Analysis and Interpretation of financial statements?

3+7+5=15

(b) Discuss its significance to the management and others who are interested in the business.

(c) Discuss the limitations of Financial Statement Analysis.

6. From the following Balance Sheet of Deepika Ltd; compute

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- Current Ratio
- Acid-Test Ratio
- Inventory Turnover Ratio
- Debtors Turnover Ratio
- Average Collection Period
- Creditors Turnover Ratio
- Average Payment Period

(h) Working Capital Turnover Ratio

	₹
Equity Shares Capital	4,00,000
Reserve Fund	2,80,000
8% Debentures	3,00,000
Mortgage Loan	2,58,000
Sundry Creditors	70,000
Bills Payable	35,000
Bank Overdraft	60,000
Outstanding Expenses	15,000
Tax liabilities	20,000
Total	14,38,000
Goodwill	2,00,000
Land & Buildings	4,00,000
Plant & Machinery	3,50,000
Patents	50,000
Stock	2,00,000
Sundry Debtors	80,000
Bills Receivable	90,000
Marketable Securities	20,000
Cash Balance	45,000
Prepaid Expenses	3,000
Total	14,38,000

Sales- ₹6,00,000

Purchases- ₹4,05,000

Note:

- (i) Take 365 days in a year
- (ii) Trade debtors include debtors and bills receivables
- (iii) Trade creditors include creditors and bills payables.

7. The Balance Sheet of ABC Ltd. for the year ended on 31.03.2020 and 31.03.2021 are as follows:

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(in ₹ '000)					
	2020 ₹	2021 ₹		2020 ₹	2021 ₹
Equity Shares Capital	400	500	Fixed Assets	605	570
10% Preference Share Capital	200	-	Debtors	120	140
5% Debentures	-	100	Inventory	200	180
Capital Redemption Reserve	-	100	Cash	90	60
Profit & Loss A/c	250	60	Preliminary Expenses	60	40
Creditors	150	140			
Other Liabilities	75	90			
	1,075	9,90		1,075	9,90

Additional Information:

- (i) Preference Shares were redeemed at 10% Premium
- (ii) Fixed Assets were purchased for ₹1,95,000
- (iii) Fixed Assets having book value of ₹1,40,000 were sold for ₹80,000
- (iv) Dividend paid on equity shares was ₹40,000

Prepare a Cash Flow Statement for the year ended on 31.03.2021.

8. Write notes on the following:

5×3 = 15

- (i) Vertical and Horizontal Analysis of Financial Statements
- (ii) Cost of Retained Earnings
- (iii) Profitability Index method.

GROUP-B

9. Answer any **four** questions :

5×4 = 20

- (a) Distinguish between Shares and Debentures. 5
- (b) Write a note on Return on Investment (ROI). 5
- (c) Briefly discuss 'Common-Size Statements'. 5
- (d) State the significance of Profitability Ratios. 5
- (e) Briefly discuss the conservative and aggressive policies of working capital financing. 5
- (f) You are required to prepare a comparative Balance Sheet for Surya Ltd. from the information provided below: 5

Particulars	2021(₹)	2020 (₹)
Equity and Liabilities:		
(1) Shareholder's Funds		
(a) Share Capital	40,00,000	35,00,000
(b) Reserves and Surplus	15,00,000	10,00,000
(2) Non-Current Liabilities		
Long-term Borrowings	3,00,000	3,00,000
(3) Current Liabilities		
(a) Short-term Borrowings	4,80,000	4,50,000
(b) Trade Payables	4,50,000	4,00,000
Total	67,30,000	56,50,000
Assets:		
(1) Non-Current Assets		
(a) Fixed Assets (Tangible)	7,00,000	5,00,000
(b) Non-Current Investment	10,00,000	10,00,000
(2) Current Assets		
(a) Inventories	11,00,000	15,00,000
(b) Trade Receivables	39,30,000	26,50,000
Total	67,30,000	56,50,000

- (g) Distinguish between NPV and IRR methods of evaluating Capital Projects. 5
- (h) Discuss the various factors influencing financial decisions. 5

GROUP-C

10. Answer any *ten* questions: 2×10 = 20
- (a) Define Wealth. 2
- (b) State two benefits of having an adequate level of a working capital. 2
- (c) Calculate the amount of Current Assets and Current Liabilities when Current Ratio is 2.4 and Working Capital is ₹1,40,000 2
- (d) Write two applications of Ratio Analysis. 2
- (e) How can firm maximize shareholders' wealth? 2
- (f) What do you mean by Trend Analysis of Financial Statements? 2
- (g) Mention four sources of long-term finance. 2
- (h) What is Operating Profit? 2
- (i) What do you mean by Risk-return trade off? 2
- (j) What is the necessity for calculating liquidity and solvency ratios? 2
- (k) State the uses of preparing Cash Flow Statement. 2
- (l) What are the different types of Financial Statement Analysis? 2
- (m) Define Combined Leverage. 2
- (n) How is earnings per share calculated? 2
- (o) What are the various kinds of working capital? 2

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