

**INDIAN MARITIME UNIVERSITY**  
**(A Central University, Govt. of India)**

First Semester- MBA(PSM/ ITL)  
December 2015 End Semester Examinations

**Financial Accounting and Management**  
Subject Code: PG21T2103/PG22T2103

Time : 3 hrs  
Date: 11.12.2015

Max.Marks :60  
Pass Marks: 30

**Section – A (MCQ)**

Answer all the questions (12x1Marks = 12 Marks)

1. We can say that the business is in profit, when:
  - a) Assets exceed Expenditure
  - b) Income exceeds Liabilities
  - c) Income exceeds Expenditure
  - d) Income exceeds Liabilities
  
2. Which of the following shows summary of a company's financial position at a specific date?
  - a) Profit & Loss Account
  - b) Cash Flow Statement
  - c) Balance Sheet
  - d) Income & Expenditure Account
  
3. Accounts Receivable & Inventory are the examples of:
  - a) Liquid assets
  - b) Current assets
  - c) Fixed assets
  - d) Capital assets
  
4. Which of the following shows summary of a company's financial position at a specific date?
  - a) Profit & Loss Account
  - b) Cash Flow Statement
  - c) Balance Sheet
  - d) Income & Expenditure Account

5. "Shareholder wealth" in a firm is represented by:
- a) the number of people employed in the firm.
  - b) the book value of the firm's assets less the book value of its liabilities
  - c) the amount of salary paid to its employees.
  - d) the market price per share of the firm's common stock.
6. When \_\_\_\_\_ is greater than zero the project should be accepted.
- a) Internal rate of return
  - b) Profitability index
  - c) Net present value
  - d) Modified internal rate of return
7. In \_\_\_\_\_ approach, the capital structure decision is relevant to the valuation of the firm.
- a) Net income
  - b) Net operating income
  - c) Traditional
  - d) Miller and Modigliani
8. Net working capital refers to
- a) total assets minus fixed assets.
  - b) current assets minus current liabilities.
  - c) current assets minus inventories.
  - d) current assets.
9. The term "capital structure" refers to:
- a) long-term debt, preferred stock, and common stock equity.
  - b) current assets and current liabilities.
  - c) total assets minus liabilities.
  - d) shareholders' equity.
10. Reserves & Surplus are which form of financing?
- a) Security Financing
  - b) Internal Financing
  - c) Loans Financing
  - d) International Financing

11. In MM model MM stands for...

- a. M.Khan and Modigliani
- b. Miller and M.Khan
- c. Modigliani and M.Khan
- d. Miller and Modigliani

12. When a company issues shares to the existing shareholders before the public issue, such shares are termed as:

- a. Bonus shares
- b. Common shares
- c. Preferential shares
- d. Rights shares

**Section – B (200 Words)**

Answer any 5 out of 7 (5x4 Marks=20 Marks)

13. A firm is considering an expenditure of Rs. 60 lakhs for expanding its operations. The relevant information is as follows:

i. No. of Existing equity shares	10 Lakhs
ii. Market value of existing share	Rs. 60 per share
iii. Net earnings	Rs. 90 lakhs

Compute the cost of existing equity share capital under Earning Yield method and of new equity capital assuming that new – shares will be issued at a price of Rs. 52 per share and the costs of new issue will be Rs. 2 per share.

14. Distinguish between a share and debenture.

15. What are the concepts of working capital?

16. What is optimal capital structure?

17. A plant is purchased for Rs. 20,000. It is depreciated at 5% p.a. according to the fixed instalment method for 5 years when it becomes obsolete due to the method of production and is scrapped. The scrap produces Rs. 5,385. Show the Plant account in the ledger.

18. Calculate payback period.

Year	Cash flow of Project A	Cash flow of Project B
0	Rs. (1,00,000)	Rs. (1,00,000)
1	50,000	20,000
2	30,000	20,000
3	20,000	20,000
4	10,000	40,000
5	10,000	50,000

19. The following data relating to XYZ Ltd.,  
 Earning per share - Rs. 14  
 Capitalization rate - 15%  
 Rate of Return - 20%
- Determine the market price per share under Gordon's model if retention is
- 40 %
  - 60 %

**Section - C ( 500 Words, Case Study/ Essay Type)**

First question of the section is compulsory (1x7Marks=7Marks)

Answer any 3 out of 5 (3x7 Marks=21 Marks)

20. A Ltd., was registered with an authorized capital of Rs. 6, 00,000 in equity shares capital. The following is its the trial balance as at 31<sup>st</sup> March 2010.

Particulars	Debit (Rs)	Credit (Rs)
Goodwill	25,000	
Cash	750	
Bank	39,900	
Purchases	1,85,000	
Preliminary Expenses	5,000	
Share Capital		4,00,000
12% debentures		3,00,000
P&L a/c (cr)		26,250
Calls -in-arrears	7,500	
Premises	3,00,000	
Plant & Machinery	3,30,000	
Interim dividend	39,250	
Sales		4,15,000

Opening Stock	75,000	
Furniture & fixtures	7,200	
Sundry Debtors	87,000	
Wages	84,865	
General Expenses	6,835	
Freight and carriage	13,115	
Salaries	14,500	
Directors' fee	5,725	
Bad Debts	2,110	
Debenture interest paid	18,000	
Bills payable		37,000
Sundry creditors		40,000
General reserve		25,000
Provision for bad debts		3,500
<b>Total</b>	<b>12,46,750</b>	<b>12,46,750</b>

Prepare Profit and loss account and balance sheet. Take into consideration the following adjustments:

- i. Stock on 31<sup>st</sup> March 2010 was valued at Rs. 95,000
- ii. Make a provision for Income tax @ 50%
- iii. Depreciation Plant and Machinery @ 15%.
- iv. Write off Rs. 500 from preliminary expenses
- v. Provide for 6 month interest on debentures
- vi. Leave bad and doubtful debts provision at 5% on sundry debtors

21. A project needs an investment of Rs. 1,38,500. The cost of capital is 12%. The net cash inflows are as under :

Year	1	2	3	4	5
Cash inflow (Rs.)	30,000	40,000	60,000	30,000	20,000

Calculate the Internal Rate of Return and suggest whether the project should be accepted or not ?

22. From the following information, prepare a statement showing the estimated working capital requirements:

Budgeted sales – Rs. 2,60,000 p.a.

Analysis of cost and profit of each unit

Particulars	Rs.
Raw Materials	3
Labour	4
Overheads	2
Profit	1
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Selling price per unit	10
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It is estimated that

- Pending use, raw materials are carried in stock for three weeks and finished goods for two weeks.
- Factory processing will take 3 weeks
- Suppliers will give five weeks credit and customers will require eight weeks credit.

It may be assumed that production and overheads accrue evenly throughout the year.

- What is a debenture? What are its characteristics? Distinguish between "Ex-interest" and "Cum-Interest".
- Discuss the factors that influence the dividend policy of a company.
- What is Capital structure? Discuss the various determinants of capital structure.

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