

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

December 2016 End Semester Examinations

Master of Business Administration  
First Semester – International Transportation and Logistics Management /  
Port and Shipping Management (2015 batch onwards)

Financial Accounting and Management (PG21T2103/ PG22T2103)

Date : 19.12.2016

Time: 3 Hrs

Maximum Marks: 60

Pass Marks : 30

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**SECTION-A**

(12x 1= 12 Marks)

(Answer All Questions)

**Choose the Correct Answer:**

1. Ordinary shares in limited companies have
  - a. a limited life, and voting rights and receive dividends
  - b. a limited life, with no voting rights but receive dividends
  - c. an unlimited life, and voting rights and receive dividends
  - d. an unlimited life, and voting rights but receive no dividends
  
2. Loans to limited companies
  - a. do not have a fixed term but receive interest which is allowable for corporation tax, and have voting rights
  - b. have a fixed term and receive interest which is not allowable for corporation tax, but have no voting rights
  - c. do not have a fixed term and receive interest which is allowable for corporation tax, but have no voting rights
  - d. have a fixed term and receive interest which is allowable for corporation tax, but have no voting rights
  
3. A company has a financial structure where equity is 70% of its total debt plus equity. Its cost of equity is 10% and gross loan interest is 5%. Corporation tax is paid at 30%. What is the company's weighted average cost of capital (WACC)?
  - a. 8.05%
  - b. 7.45%
  - c. 8.50%
  - d. 7.50%

4. The role of financial accounting is primarily to
  - a. assist the company in meeting its legal and financial reporting requirements
  - b. support the strategic management of the company
  - c. manage and control corporate funds
  - d. ensure that a company does not pay too much corporation tax
  
5. Which of the following should financial information not be?
  - a. timely
  - b. reliable
  - c. accurate
  - d. inconsistent
  
6. The balance sheet shows
  - a. the financial performance and the financial position of the business
  - b. the financial performance of the business
  - c. the cash flow of the business
  - d. the financial position of the business
  
7. The profit of a business during an accounting period is equal to
  - a. total revenues less total expenses
  - b. total cash receipts less total cash payments
  - c. total cash receipts less total expenses
  - d. total revenues less total cash payments
  
8. Net present value (NPV) used to evaluate and investment
  - a. is shown as a percentage
  - b. does not allow for the time value of money
  - c. does not require an estimate of the cost of capital
  - d. uses relevant cash flows
  
9. Companies may adopt an aggressive or a conservative working capital policy. An aggressive policy means that a company
  - a. faces a low level of risk
  - b. holds high levels of cash and inventories
  - c. has a low level of flexibility
  - d. expects a lower level of profitability

10. A(n) \_\_\_\_\_ occurs when there is an increase in the number of shares outstanding by reducing the par value of stock.
- stock split
  - stock dividend
  - extra dividend
  - regular dividend
11. \_\_\_\_\_ is a nonrecurring dividend paid to shareholders in addition to the regular dividend.
- A stock split
  - A stock dividend
  - An extra dividend
  - A regular dividend
12. A project would normally be undertaken if its net present value is:
- Exactly the same as the NPV of existing projects
  - Zero
  - Positive
  - Negative

**SECTION-B**

**(5x 4= 20 Marks)**

**(Answer ANY FIVE Questions not exceeding 200 words each . All Questions carry equal marks)**

13. What is a debenture? Explain its characteristics.
14. Explain the terms stock split and buy back of shares
15. What are the methods of project appraisal?
16. Journalise the following :
- Paid cash to Haris Rs. 3000
  - Cash sales to Rs. 6,000
  - Sold goods to selvan on credit Rs. 3,000
  - Received cash from muthu Rs. 5,000
  - Salary paid Rs.1,500

17. B Ltd., is planning to buy a new machine costing Rs. 1,00,000 . Cash flows are expected to be as follows: The company expects a minimum return of 10%. On this basis find the profitability of the machine and state if it is financially preferable.

| Year | Cash Flow(Rs.) | Discount Factor (10%) |
|------|----------------|-----------------------|
| 1    | 8,000          | .909                  |
| 2    | 24,000         | .826                  |
| 3    | 32,000         | .751                  |
| 4    | 48,000         | .683                  |
| 5    | 32,000         | .621                  |

18. A firm is currently earning Rs. 2, 00,000 and its share is selling at a current market price of Rs. 200., the company has 10,000 shares outstanding and has no debt. It decides to raise additional funds of Rs. 5, 00,000. If the floatation costs are Rs. 10 per share and the company can sell the share for Rs. 180, what is the cost of equity? Assume that the earnings are stable.
19. A company acquired a machine on 1.1.2008 at a cost of Rs. 40,000 and spent Rs. 1,000 on its installation. The firm writes off depreciation at 10% on the diminishing balance. The books are closed on 31<sup>st</sup> December of each year. Show the Machinery account for three years.

**SECTION - C**

(4 x 7 = 28 Marks)

(Question No.20 is compulsory. Answer any THREE from the remaining questions. Each Analysis/ Answer should not exceed 500 words)

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, Profit and Loss appropriation 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. Anish Led., is evaluating two mutually exclusive proposals for new capital investment. The following information about the proposals are available

| Particulars                                   | Proposal A (Rs) | Proposal B (Rs) |
|---|-----------------|-----------------|
| Investment Cost                               | 80,000          | 90,000          |
| Life (year)                                   | 4               | 5               |
| <i>Earnings before depreciation and taxes</i> |                 |                 |
| Year 1  | 24,000          | 28,000          |
| 2   | 28,000          | 32,000          |
| 3   | 32,000          | 36,000          |
| 4   | 44,000          | 44,000          |
| 5   | -               | 40,000          |

The company's cost of capital is 10% and tax rate is 50%.

Calculate for each project:

- a. Net Present Value    b. Profitability index    and    c. Internal Rate of Return

22. HP Ltd., has paid up equity capital 60,000 equity shares of Rs. 10 each. The current market price of share is Rs. 24. During the current year, the company has declared a dividend of Rs. 6 per share. The company has also previously issued 14% preference shares of Rs. 100 each aggregating Rs. 3,00,000 at 5% discount and 13% debentures of Rs. 100 each for Rs. 5,00,000. The corporate tax rate is 40% the growth rate in dividends on equity shares is expected at 5%. Calculate the Weighted Average Cost of Capital of the Company.

23. Mr. X wants to buy a business and seeks your help to calculate working capital requirements in the first year of trading. The following information are given and you are asked to add 10% for contingencies:

|      |  |          |
|------|--|----------|
| I.   | Average amount locked up on stock              | Rs.      |
|      | Stock of finished product and work in progress | 2,500    |
|      | Stock of Stores, Materials                     | 4,000    |
| II.  | Average Credit given to customers:             |          |
|      | Local sales – 2 weeks credit                   | 39,000   |
|      | Outside sales – 6 weeks credit                 | 1,56,000 |
| III. | Time allowed by supplier for payment – 4 weeks | 48,000   |
| IV.  | Time available for payment of wages – 2 weeks  | 1,30,000 |

Prepare a statement showing the working capital requirement.

24. What are the different sources of finance available to a company? Explain

25. Discuss the factors that influence the dividend policy of a company.

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