

**Subject: Corporate Finance & Insurance Accounting**

**Subject Code : INS-302, Credit : 4**

**Programme : PGDM (IBM)**

**Trimester-III, Batch : 2016-18**

Time Allowed: 2½ Hrs.

Roll No: .....

Max Marks: 50

*Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as Unfair Means. All other instructions on the reverse of Admit Card should be followed meticulously.*

**SECTION-A**

**Attempt any 3 questions out of 5. All questions carry equal marks.**

**3x5=15**

- A1. The current ratio provides a better measure of overall liquidity only when a firm's inventory cannot easily be converted into cash. If inventory is liquid, the quick ratio is a preferred measure of overall liquidity. Explain.
- A2. Now that you know the meaning of operating activities, state clearly what would constitute the operating activities for the following types of enterprises:  
(i) Media enterprise  
(ii) Steel manufacturing unit  
(iii) Software business unit.
- A3. Distinguish between capital and revenue expenditure and state whether the following statements are items of capital or revenue expenditure with reason:  
(a) Depreciation charged on a plant.  
(b) The expenditure incurred in erecting a platform on which a machine will be fixed.  
(c) Advertising expenditure, the benefits of which will last for four years.
- A4. What is the money measurement concept? Which one factor can make it difficult to compare the monetary values of one year with the monetary values of another year?
- A5. Distinguish between Net Present Value and Internal Rate of Return

**SECTION-B**

**Attempt any 2 questions out of 3. All questions carry equal marks.**

**2x10=20**

- B1. (i) Gross Profit Ratio (ii) Inventory Turnover Ratio (iii) Current Ratio (iv) Liquid Ratio (v) Net Profit Ratio

Sales Rs. 25,20,000 Net Profit Rs. 3,60,000 Cost of Sales Rs. 19,20,000 Long-term Debt Rs. 9,00,000, Creditors Rs. 2,00,000 Average Inventory Rs. 8,00,000 Current Assets Rs. 7,60,000 Fixed Assets Rs. 14,40,000, Current Liabilities Rs. 6,00,000 Net Profit before Interest and Tax Rs. 8,00,000

*Contd./2-*



B2. Charles Ltd. made a profit of Rs.1,00,000 after charging depreciation of Rs.20,000 on assets and a transfer to general reserve of Rs.30,000. The goodwill written-off was Rs.7,000 and gain on sale of machinery was Rs.3,000. Other information available to you (charges in the value of current assets and current liabilities) are debtors showed an increase of Rs.6,000; creditors an increase of Rs.10,000; prepaid expenses an increase of Rs.200; bills receivables a decrease of Rs.3,000; bills payables a decrease of Rs.4,000 and outstanding expenses a decrease of Rs. 2,000. Ascertain cash flow from operating activities.

B3. Prepare Final Accounts

Account Title	Amount Rs.	Account Title	Amount Rs.
Machinery	27,000	Capital	60,000
Sundry debtors	21,600	Bills payable	2,800
Drawings	2,700	Sundry creditors	1,400
Purchases	58,500	Sales	73,500
Wages	15,000		
Sundry expenses	600		
Rent & taxes	1,350		
Carriage inwards	450		
Bank	4,500		
Openings stock	6,000		

Closing stock as on March 31, 2005 Rs.22,400

### SECTION-C

**Compulsory Case Study.**

**15 Marks**

1(a)

ABC Chemicals is evaluating two alternative systems for waste disposal, System A and System B, which have lives of 6 years and 4 years respectively. The initial investment outlay and annual operating costs for the two systems are expected to be as follows:

	System A	System B
Initial Investment Outlay	₹ 5 million	₹ 4 million
Annual Operating Costs	₹ 1.5 million	₹ 1.6 million
Salvage value	₹ 1 million	₹ 0.5 million

If the hurdle rate is 15%, which system should ABC Chemicals choose?

The PVIF @ 15% for the six years are as below:

Year	1	2	3	4	5	6
PVIF	0.8696	0.7561	0.6575	0.5718	0.4972	0.4323

Contd./3-



2(b)

ABC Ltd. is considering a proposal to acquire a machine costing ₹ 1,10,000 payable ₹ 10,000 down and balance payable in 10 annual equal instalments at the end of each year inclusive of interest chargeable at 15%. Another option before it is to acquire the asset on a lease rental of ₹ 15,000 per annum payable at the end of each year for 10 years. The following information is also available.

- (i) Terminal Scrap value of ₹ 20,000 is realizable, if the asset is purchased.
- (ii) The company provides 10% depreciation on straight line method on the original cost.
- (iii) Income tax rate is 50%.

You are required to compute the analyse cash flows and to advise as to which option is better.