Total No. of Questions : 5] **SEAT No. :**

P1950 **[Total No. of Pages : 5**

[4770] - 2002
M.B.A. (Semester - II)
202 : FINANCIAL MANAGEMENT
(2013 Pattern)

Time : 2½ Hours] ***[Max. Marks : 50***

Instructions to the candidates:

1) *All questions are compulsory.*
2) *Each question has an internal option.*
3) *Each question carries 10 marks.*
4) *Figures to the right indicate marks for that question/sub-question.*
5) *Your answers should be specific and to the point.*
6) *Draw neat diagrams and illustrations supportive to your answer.*
7) *Use of simple calculator is permitted.*

Q1) a) "Financial Management is closely related to Economics". Explain. **[10]**

OR

b) "The Finance Manager's primary task is to plan for acquisition and use of funds so as to maximize the value of the firm". Do you agree with the statement? Comment.

Q2) a) The ratios of two leading firms in the heavy Commercial vehicles (HCV) sector namely; Tetra Motors and Rapid Auto are provided for the year ended on 31st March 2013. Interpret these ratios and comment on the relative financial. **[10]**

Performance of these companies

Ratios	Tetra Motors	Rapid Auto
Current Ratio	0.62	0.89
Quick Ratio	0.43	0.47
Gross profit margin%	4.73	6.78
Net profit margin%	2.26	4.24
Total debt to equity	0.56	0.82
Fixed assets turnover Ratio	1.66	2.01
Inventory Turnover Ratio	11.54	6.63
EPS (Rs)	3.91	2.13

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OR

b) From the following balance sheets as on 31st March 2012 and 31st March 2013 of Dayanand Ltd. You are required to prepare funds flow statement.

Balance Sheet

	Amount (Rs.)			Amount (Rs.)	
Liabilities	**31/03/2012**	**31/03/2013**	**Assets**	**31/03/2012**	**31/03/2013**
Equity Capital	3,00,000	4,00,000	Goodwill	1,15,000	90,000
8% Redeemable Pref. Shares	1,50,000	1,00,000	Land & Building	2,00,000	1,70,000
General Reserve	40,000	70,000	Plant	80,000	2,00,000
Profit & Loss A/c	30,000	48,000	Debtors	1,60,000	2,00,000
Proposed Dividend	42,000	50,000	Stock	77,000	1,09,000
Creditors	55,000	83,000	Bills Receivable	20,000	30,000
Bills payable	20,000	16,000	Cash in Hand	15,000	10,000
Taxation Provision	40,000	50,000	Cash at Bank	10,000	8,000
Total	**6,77,000**	**8,17,000**	**Total**	**6,77,000**	**8,17,000**

Following additional information is provided :-

i) Interim Dividend of Rs. 20,000 has been paid in 2012-13.

ii) Income Tax paid during the year 2012-13 is Rs. 35,000

Q3) a) i) What are the different types of capital budgeting decisions? **[5]**

ii) A leading apparel Mfg. Co. is considering a replacement of its existing cutting machine with a new automatic machine to improve the productivity. The cost of new machine is (Rs.) 25 lakhs. The cost of the company's capital is 10%. The incremental cash flows projected during five year period are estimated as follows.

	Year 1	Year 2	Year 3	Year 4	Year 5
Cash Flows (Rs. in Lakhs)	2.5	5.00	8.00	10.00	12.5
PVF@10%	0.909	0.826	0.751	0.683	0.621

Comment on the suitability of the project by using NPV and PI. **[5]**

OR

b) i) Why capital expenditure budget is required for corporate organizations? **[5]**

ii) A leading company in the infrastructure contracts is considering a proposal for the purchase of earth moving equipment. The data on the proposal is given below : **[5]**

Cost of the Machine (Rs.)	30,00,000
Life of the Machines	6 years
Depreciation	Straight line method
Salvage value (Rs.)	Nil

The estimated cash flows before depreciation and income tax in different years as follows.

Year	Amount (Rs.)
1	7,50,000
2	8,00,000
3	8,50,000
4	10,00,000
5	12,00,000
6	14,00,000
Total	60,00,000

The corporate tax rate is 30%. You are required to calculate the cash flows after tax but before depreciation and comment on the suitability of the machine bases on pay-back period.

Q4) a) A proforma cost-sheet of a company provides the following particulars:**[10]**

Element of Cost	Cost per unit (Rs.)
Raw Material	80
Direct labour	30
Overheads	60
Total cost of production	170
Profit	30
Selling price	200

Following further particulars are available :

i) Raw Materials are in stock on an average one month.

ii) Materials are in process on an average half a month.

iii) Finished goods are in stock on an average one month.

iv) Credit allowed by suppliers is one month.

v) Credit allowed to debtors is two months.

vi) Lag in payment of wages and overheads are 1 month.

vii) One fourth of the output is sold against cash.

viii) Cash on hand and at bank is expected to be Rs.25,000.

You are required to prepare a statement showing the working capital needed as per total approach method of working capital to finance a level of activity of 60,000 units of production annually. The production is carried out evenly throughout the year.

OR

b) The cost structure of a company's product is as follows :-

Cost Per Unit	Amount (Rs.)
Raw Material	20
Direct Labour	5
Overheads	15
Total cost of production	40
Profit	10
Selling price	50

i) The annual production is 2,40,000 units.

ii) It is the policy of the company is to maintain the stock of raw materials equivalent to one month's production.

iii) Half a month's production will remain in process throughout the year (Stage of completion 50%).

iv) The finished goods remain in warehouse on an average for a month.

v) The company sells its goods on credit and allows two months credit to its customers.

vi) The suppliers of raw materials provide 3 months credit to the company.

vii) The period of lag for wages and overheads is one month.

viii) A minimum cash balance of Rs. 25,000 is expected to be maintained.

*You are required to prepare a statement showing **working capital requirement as per cash cost approach method of working capital estimation.***

Q5) a) i) A leading company manufacturing cosmetics is in need of a capital for it's expansion plans. Which factors do you think are required to be considered for raising the long-term funds to finance the plan? **[5]**

ii) The entire capital structure of a company is provided along with the tax adjusted cost of each component. Determine the weighted average cost of capital (WACC). **[5]**

Components of Capital	Amount (Rs)	Tax adjusted cost of Capital
12% Debentures	30,00,000	8%
9% Preference shares	20,00,000	9%
Equity Shares	50,00,000	14%

OR

b) i) State the various assumptions made in capital structure theories. **[5]**

ii) Rajaram Ltd. Has the following capital structure. **[5]**

Particulars	Market values	Book values	Component cost %(Post - Tax)
Equity Capital	80	120	18
Pref. Share Capital	30	20	15
Secured Debentures	40	40	14

Calculate weighted average cost of capital (WACC) of the company based on both book and marked values.