

Total No. of Questions :5]

SEAT No. :

P1342

[5365]-202

[Total No. of Pages : 11

M.B.A.

**202 : FINANCIAL MANAGEMENT
(Revised 2013 Pattern)**

Time : 2½ Hours]

[Max. Marks : 50

Instructions to the candidates:

- 1) *All questions are compulsory.*
- 2) *Each question carries 10 marks.*
- 3) *Figures to the right indicate marks of questions.*
- 4) *Use of simple calculator is permitted.*

Q1) a) Define Financial Management and briefly describe the various goals of financial management. **[10]**

OR

b) Explain the key strategies of financial management in detail. **[10]**

Q2) a) The ratios of two (MNC) multinational company are given for the year ended 31st March 2014. Interpret these ratios and also comment on the financial performance of these companies. **[10]**

RATIOS	ABIL LTD	SUBK LTD
Current Ratio	0.83	0.96
Quick Ratio	0.33	0.39
Debt to equity	0.43	0.76
(%) Gross profit margin	3.76	6.73
(%) Net profit margin	3.21	4.24

OR

b) Prepare statement showing working capital changes and F and flow statement. **[10]**

Particulars	2004	2005	Particulars	2004	2005
Share capital	10,00,000	12,00,000	Fixed Assets	18,00,000	20,50,000
Gen. reserve	5,00,000	6,00,000	Investments	2,00,000	2,50,000
P/L Account	1,00,000	1,50,000	Stock	5,00,000	7,00,000
Debentures	5,00,000	5,00,000	Debtors	5,85,000	6,40,000
Creditors	9,00,000	10,50,000	Cash	15,000	10,000
Prepaid Dividend	1,00,000	1,50,000			
	31,00,000	36,50,000		31,00,000	36,50,000

P.T.O.

Additional Information :

- i) During the year 2005 depreciation was charged on fixed assets amounted to Rs. 2,50,000.
- ii) Final dividend for the year 2004 was paid in the year 2005 amounting to Rs. 1,00,000.

- Q3) a)** A firm having cost of capital of 10% and presently considering two exclusive proposals 'X' and 'Y' for the investment. The details are as follows : **[10]**

Particulars	Project 'X'	Project 'Y'
Investments	15,00,000	15,00,000
<u>Cash inflows at the end of the year</u>		
1	1,00,000	6,50,000
2	2,50,000	6,00,000
3	3,50,000	6,00,000
4	5,50,000	5,75,000
5	7,50,000	5,25,000

P.V. factors @ 10%

(1st yr - .909, 2nd yr-0.826, 3rd yr-0.751, 4th yr-0.683, 5th yr-0.621)

Calculate :

- i) Pay back period
- ii) Net present value

OR

- b)** A company has started a new project which is having cost of Rs. 50,000 and life of 5 years. Salvage value is Nil, tax rate for the company is 55% and it follows Straight line Method (SLM) of depreciation. The Cash Flows Before Tax (CFBT) are as follows : **[10]**

Year	Cash flows before tax
1	Rs. 10,000
2	Rs. 11,000
3	Rs. 20,000
4	Rs. 30,000
5	Rs. 35,000

Calculate :

- i) Pay back period
- ii) Average Rate of Return

- Q4) a)** Calculate the working capital requirements to manufacture 1,20,000 units of output for a year from the following information : **[10]**

Particulars	Cost per unit (Rs)
Raw Material	20
Direct Labour	5
Overheads	10
Total costs	<u>35</u>
Profit	10
Selling Price	45

Additional Information

- i) Minimum cash balance is Rs. 20,000
- ii) On an average stock of raw materials in held for 2 months
- iii) Finished goods are held for an average one month.
- iv) Credit extended by suppliers 2 months and 2 months credit is given to debtors
- v) Cash sales are 25% of total sales.
- vi) Delay is payment of wages one month
- vii) Half a month delay in payment of overheads

NOTE : (For the calculation of WIP consider Raw Materials 100% and overheads and direct labour 50%)

OR

- b) Income statement as of March 31st 2006 of a company xyz Ltd is as follows : **[10]**

Particulars	Amount (Rs)
Sales	10,50,000
Variable cost	7,67,000
Fixed cost	75,000
EBIT	20,8,000
Interest	1,10,000
Taxes (30%)	29,400
Net Income	68,600

Calculate :

- i) Operating Leverage
- ii) Financial Leverage
- iii) Combined Leverage

Q5) a) Explain with suitable examples the different factors which determines the requirement of working capital. **[10]**

OR

b) Briefly explain the various capital structure theories. **[10]**



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Instructions to the candidates:

- 1) Use only accounting calculators.*
- 2) All questions are compulsory.*
- 3) Figures to the right indicate marks.*

Q1) a) What are the goals, objective and functions of finance management. Describe the various modern approaches to financial management. **[10]**

OR

b) Explain the main functions and key strategies used by a financial manager. **[10]**

Q2) a) i) The following are the summarized trial balance of XYZ Ltd as on 31-12-2015 and 2016 respectively. You are required to prepare statements showing.

- 1) The net increase in working capital during the year 2016
- 2) The sources and application of funds during the year. Taxation has been and is to be ignored.

Particulars	31-12-2015		31-12-2016	
	Dr	Cr	Dr	Cr
	(Rs)	(Rs)	(Rs)	(Rs)
1. Issued share capital		2,00,000		2,00,000
2. Capital Reserve				47,600
3. 5.5% debentures				50,000

Particulars	31-12-2015		31-12-2016	
	Dr	Cr	Dr	Cr
	(Rs.)	(Rs.)	(Rs.)	(Rs.)
4. Debenture Discount			1000	
5. Free holds				
- At cost	1,12,500			
- At revaluation			1,51,000	
6. Plant and machinery				
at cost	2,48,000		2,96,000	
7. Provision for depreciation				
of plant & machinery		1,14,200		1,25,350
8. Current assets	1,86,150		1,78,950	
9. Current Liabilities		1,09,250		82,550
10. Balance on P & L A/C		92,200		1,22,000
from previous year				
11. Net profit for the year		29,800		36,850
12. Dividend paid for the				
year 2016			20,000	
13. Provision for doubtful				
debts		1200		1350
14. Trade investment at cost			18,750	
	5,46,650	5,46,650	6,65,700	6,65,700

Further information

- 1) The capital reserve as on 31-12-2016 represented :
 - i) The profit on sale for cash of one of the free hold property.
 - ii) The surplus arising on the revaluation of the remaining free holds.

- 2) During the year 2016 machinery costing Rs. 24,000 (Accumulated depreciation Rs. 15,500) was sold for Rs. 10,300.
- 3) On 1st July 2016 debentures worth Rs. 50,000 were issued for cash at a discount of Rs. 1500.
- 4) The Net Profit for the year 2016 is arrived at after crediting profit on the sale of machinery and after charging debenture interest and writing off debenture discount Rs. 500. **[5]**

- ii) What is the purpose of cash flow Analysis. Enumerate any two differences between cash flow and fund flow Analysis. **[5]**

OR

- b) i) Interpret the following Ratios **[5]**

	ABC Ltd.	XYZ Ltd.
1. Current Ratio	2:5	2:5
2. Liquid Ratio	1:1	2:1
3. Gross Profit Ratio	20%	30%

- ii) Explain in detail the meaning, Nature, objective and limitation of Financial Analysis. **[5]**

Q3) a) PQR Ltd is considering investing in a project that is expected to cost Rs. 12 Lakhs. The expected cash inflows (Before Tax and depreciation are given below). The company is using straight line method of depreciation Calculate :

- i) Pay Back period
- ii) NPV if capitalization Rate is 10%

Cash in flow (before tax and dep.)

Year	Rs.
1	3,00,000
2	3,00,000
3	4,50,000
4	4,50,000
5	7,50,000
	22,50,000

The present value factor @ 10% are year 1- 0.909 year 2-0.826 year 3-0.751
year 4-0.683 year 5-0.621 **[10]**

OR

- b) A Firms whose cost of capital is 10% is considering two mutually exclusive proposals x and y. The details of which are as follows : **[10]**

Particulars	Project X (Rs.)	Project Y (Rs.)
Investments cash inflows	15,00,000	15,00,000
at the end of :		
1	1,00,000	6,50,000
2	2,50,000	6,00,000
3	3,50,000	6,00,000
4	5,50,000	5,75,000
5	7,50,000	5,25,000
	35,00,000	44,50,000

Calculate :

- i) Profitability index 10% Capitalization Rate
- ii) Average Rate of Return

Q4) a) A proforma cost sheet of a company are as follows :

Particulars	Cost per unit (Rs)
Raw materials	52.0
Direct labour	19.5
Overheads	39.0
Total cost per unit	110.5
Profit	19.5
Selling price	130.5

Additional Information :

Average raw materials in stock is one month; average material in process-half month; credit allowed by supplier-one month; credit allowed to debtors-two months; Time lag in payment of wages-one and half weeks overheads-one month; $\frac{1}{4}$ th of the sales are on cash basis-expected month; cash balance Rs. 1,20,000. Prepare a statement showing working capital requirements to finance a level of activity of 70,000 units of output.

[10]

OR

- b) The Board of Directors of ABC Ltd requests you to prepare a statement showing the working capital requirements for a level of activity of 1,56,000 units production using the following information.

Particulars	Per unit (Rs)
Raw materials	90
Direct labour	40
Overheads	75
Total cost	205
Profit	60
Selling price per unit	265

- i) Raw materials are in stock on an average 1 month
- ii) Materials are in process 100% consumption on an average two weeks.
- iii) Finished goods are in stock on an average one month.
- iv) Credit allowed by suppliers one month.
- v) Time lag in payment from debtors two months.
- vi) Lag in payment of wages 1½ weeks.
- vii) Lag in payment of overheads one month. 20% of the output is sold against cash. Cash in hand and bank expected Rs. 60,000. 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. For calculating WIP consider overhead and wages @ 50% and Raw material 100%. **[10]**

Q5) a) i) Calculate the weighted average cost of capital using the following information X Ltd has the following capital structure

Particulars	(Rs)
1) Equity share capital [20,000 shares]	4,00,000
2) 6% Preference share capital	1,00,000
3) 8% Debenture capital	3,00,000
	8,00,000

Additional information :

The market price of equity share is Rs. 20. It is expected that the company will pay a current dividend of Rs. 2 per share which will grow @ 7% forever. Rate of Tax 40% [5]

- ii) What are the various types of cost of capital? Explain any two uses of cost of capital. [5]

OR

- b) i) From the following information calculate WACC on the basis of weights assigned as per

- 1) Book value
- 2) Market value

Cost of equity 18%; cost of long-term debt 8% [post tax]; cost of preference capital 14%

Source of capital	Book value	Market value
	Rs.	Rs.
Equity capital	5,00,000	7,50,000
Long term debt	4,00,000	3,75,000
Preference capital	1,00,000	1,00,000
	10,00,000	12,25,000

[5]

- ii) Explain the Net income Approach of capital structure using suitable graph and example. [5]

