Total No. of Questions : 5]

SEAT No. :

P3791

[Total No. of Pages : 5

[4870]-2002

M.B.A.

202 : FINANCIAL MANAGEMENT

(CBCS) (2013 Pattern) (Semester - II)

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) Describe the three broad areas of Financial Decision Making for a Finance Manager with respect to Business organizations. **[10]**

OR

b) "The objective of Financial Management is to maximize the wealth of the shareholders by maximizing the value of the firm." Explain. **[10]**

Q2) a) From the ratios forth below for the Manufacturing Ltd, Indicate your interpretation of the Company's Financial Position. **[10]**

Particulars	2015	2014	2013
Current Ratio	3.02	2.78	2.65
Quick Ratio	0.99	1.1	1.55
Working Capital Turnover (Times)	3.25	3.00	2.75
Collection Period (Days)	50	43	37
Inventory to Working Capital (%)	110	100	95
Net Profit to Net Sales (%)	2.0	5.09	7.03
Sales increase duirng the Year (%)	23	16	10
Cost of Goods sold to Net Sales (%)	73	71	70

OR

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b) From the following balance sheets as on 31st March 2013 and 31st March 2014 of Mahanand Ltd. You are required to prepare Funds Flow Statement. **[10]**

Balance Sheet

	Amount (Rs.)			Amount (Rs.)	
Liabilities	31/03/2013	31/03/2014	Assets	31/03/2013	31/03/2014
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:

a) Interim Dividend of Rs. 20,000 has been paid in 2013-14.

b) Income Tax paid during the year 2013-14 is Rs. 35,000

Q3) a) i) Explain relevance of time value of money in investment decision. **[5]**

ii) A company is considering the process of replacement of an asset. The cost of the asset is Rs. 15 lakhs. The cost of the company's capital is 10%. The expected 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)	4.00	4.00	6.00	6.00	4.0
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) How do you calculate net present value of a project? What are its merits and demerits. **[5]**

ii) A company is contemplating to purchase a machine. A cost of the machine is Rs. 30 lakhs. A discounting rate of 10% is to be used and machine is to be written off in 6 years by straight line method of depreciation with no residual value. The estimated cash flows after tax in different years are expected as follows:

Year	Amt. (Rs.)
1	6,75,000
2	7,10,000
3	7,45,000
4	8,50,000
5	9,90,000
6	11,30,000

Comment on the Suitability of the machine using Payback period method. **[5]**

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 for one month.

ii) Credit allowed by suppliers is one month.

iii) Credit allowed to customers is two months.

iv) Lag in payment of wages 1.5 months.

v) Lag in payment of overheads one month.

vi) Materials are in process for an average of half a month.

vii) Finished goods are in stock for an average of one month.

viii) 1/4th of output is sold against cash.

ix) Cash in hand and bank is expected to be Rs. 25,000

You are required to prepare a statement showing the working capital needed 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 management of Royal industries has called for a statement showing the working capital needs to finance a level of activity of 1,80,000 units of output for the year. The cost structure for the company's product for the above mentioned activity level is detailed below:

Particulars	Cost per Unit (Rs.)
Raw Materials	20
Direct Labour	5
Overheads	10
Cost of production	35
Profit	10
Selling Price	50

Additional Information:

i) Minimum desired cash balance is Rs. 20,000.

ii) Raw materials are held in stock, on an average for two months.

iii) Work in progress (assume 50% completion stage for Materials, Labour & Overheads) will approximate to half a month's production.

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

v) Suppliers of materials extend a month's credit. Also, Debtors collection period is two months. Cash sales are 25% of total sales.

vi) There is a time-lag in payment of wages and overheads are of a month.

You are required to estimate the working capital requirements of the company with assumption that production is carried on evenly throughout the year. **[10]**

Q5) a) i) Explain in detail the various factors affecting the Capital Structure. **[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	**Amt. (Rs.)**	**Tax Adjusted Cost of Capital**
Equity Share Capital (2,00,000 Shares)	20,00,000	13%
11.5% Preference Shares	15,00,000	11.5%
10% Debentures	25,00,000	7.5%

OR

b) i) State the various assumptions made in Net Income and Net Operating Income capital structure Theories. **[5]**

ii) Calculate Weighted Average Cost of Capital (WACC) of the company based on book value weights and market value weights. **[5]**

Particulars	Book Values	Market Values	Component Cost % (Post-Tax)
Debentures	6,00,000	7,00,000	7.23
Pref. Share Capital	2,00,000	2,00,000	11.25
Equity Shares	14,00,000	21,00,000	16.5