

Total No. of Questions : 5]

SEAT No. :

P3967

[5070]-2002

[Total No. of Pages : 10

M.B.A.

**202 : FINANCIAL MANAGEMENT
(2013 Pattern) (Revised) (Semester - II)**

Time : 2½ Hours]

[Max. Marks : 50

Instructions to the candidates:

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

Q1) a) Define Financial Management. Explain the various goals of it in detail.[10]

OR

b) Explain the key strategies of financial management with suitable examples.[10]

Q2) a) From the following Balance sheets of ABC Ltd prepare a statement showing sources and application of funds for the year ended 31st March[10]

2005

“BALANCE - SHEET”

Liabilities	2004(Rs.)	2005(Rs.)	Assets	2004(Rs.)	2005(Rs.)
Equity Capital	3,00,000	4,00,000	Goodwill	1,15,000	90,000
8% Pref. sh. capital	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
Tax Provision	40,000	50,000	Cash at bank	10,000	8,000
	6,77,000	8,17,000		6,77,000	8,17,000

P.T.O.

Additional Information:

- i) Depreciation has been charged on plant & Land & Building Rs. 10,000 and Rs. 20,000 respectively in 2004-2005.
- ii) Interim dividend of Rs. 20,000 has been paid in 2004-2005.
- iii) Income tax paid during 2004-2005 Rs. 35,000.

OR

- b) The standard ratio for the industry and the ratios of “Prabhat Ltd” are given labour. Comment on the financial position of the company compared to industry standards and give suggestions for improvement. **[10]**

Ratio	Industry Standard Ratio	Ratio of Prabhat Ltd
Current Ratio	2.4	2.6
Quick Ratio	1.6	1.08
Inventory Turnover Ratio	9	3
Average collection period	34	42
Debt equity Ratio	2 : 1	1.35 : 1

- Q3) a)** Ashok Ltd. is planning to invest in a new project. The company has the following 2 alternatives available for investment? **[10]**

	Project 'A'	Project 'B'
Investment	30,00,000	30,00,000
Project Life	5Years	6 years
Cost of capital	12%	12%
Cash inflow at the end of the year:		
year 1	7,00,000	8,00,000
year 2	10,00,000	8,00,000
year 3	9,00,000	8,00,000
year 4	8,00,000	8,00,000
year 5	4,00,000	6,00,000
year 6	-	2,00,000

Calculate and suggest the company to select the alternative on the basis of

- i) Pay Back Period.
- ii) Net Present Value.

OR

- b) A company is considering an investment proposal to install new machine. This project will cost Rs. 1,00,000 and will have 5 years life with no salvage value. Tax rate is 50%, the company follows straight line method of depreciation. [10]

Years	EBDT(Rs.)	Discount factor@ 10%
1	20,000	0.909
2	22,000	0.826
3	28,000	0.751
4	30,000	0.683
5	50,000	0.621

Evaluate the project using

- i) Pay back period.
- ii) Profitability Index at 10%.

- Q4) a) i)** Suprakash company provided the following information and requested you to compute operating cycle duration. [5]

Particulars	(In lakhs)
	Amount (Rs.)
Sales	2,000
Opening Inventory	510
Closing Inventory	375
Opening Receivables	815
Closing Receivables	875
Cost of Goods Sold	1675

- ii) Briefly explain the determinants of working capital. [5]

OR

- b) ABC Ltd sells its products on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year ended 31st December 2014. [10]

Particulars	Amount(Rs.)
Sales at 3 months credit	40,00,000
Raw Material	12,00,000
Wages paid - average time lag 15 days	9,60,000
Manufacturing expensed paid - 1 month in arrears	12,00,000
Administrative expensed paid - 1 month in arrears	4,80,000
Sales promotion expenses - payable half yearly in advance	2,00,000

The company enjoys one month credit from the suppliers of raw materials and maintains a 2 months stock of raw materials and one and half month's stock of finished goods. The cash balance is maintained at Rs. 1,00,000 as a precautionary measure. Assuming a 10% margin, find out working capital requirement of ABC Ltd.

- Q5) a) i)** Explain the concept of NI approach. [5]
- ii) From the following information calculate operating Leverage, Financial Leverage and Combined Leverage. [5]

Units Sold	30,000
Unit Sale Price	Rs. 10
Fixed Cost	Rs. 40,000
Variable cost per unit	Rs.6
10% Debt capital	Rs. 1,00,000
Tax Rate	50%

OR

- b) i) Write a note on NOI approach. [5]
- ii) From the following capital structure of a company, calculate the overall cost of capital using. [5]
- A) Book Value Weights.
- B) Market Value Weights.

Source	Book Value (Rs.)	Market Value (Rs.)
Equity share capital	45,000	90,000
Retained earnings	15,000	-
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after tax cost of different source of finance is as follows:

Equity sh. capital	= 14%
Retained earnings	= 13%
Pref. sh. capital	= 10%
Debentures	= 5%.



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- 2) *All questions are compulsory.*
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Q1) Define Financial Management. Explain goals of financial management. **[10]**

OR

What are the key strategies of financial management? **[10]**

Q2) From the following balance sheet of WRCL Company Ltd as on 31st March 2015 and 2016. You are required to prepare a schedule of changes in Working Capital and Funds Flow Statement. **[10]**

Liabilities	As on 31st March		Assets	As on 31st March	
	2015	2016		2015	2016
Share Capital	1,00,000	1,10,000	Building	40,000	38,000
General Reserve	14,000	18,000	Plant & M/c	37,000	36,000
Adjusted P&L A/c	4,000	3,000	Investment (Long Term)	10,000	21,000
Creditors	8,000	5,400	Stock	30,000	23,400
Bills Payable	1,200	800	Bills Receivable	2,000	3,200
Provision for Taxation (Non-current)	16,000	18,000	Debtors	18,000	19,000
Provision for Doubtful Debts	400	600	Cash at Bank	6,600	15,200
Total	1,43,600	1,55,800	Total	1,43,600	1,55,800

- a) Depreciation charged on Plant & M/c was Rs. 4,000.
- b) Provision for Taxation of Rs.. 19,000 was made during the year 2016.
- c) Interim dividend of Rs. 8,000 during the year.
- d) A piece of machinery was sold for Rs. 8,000 during the year 2016.
It had costed Rs. 12,000 depreciation of Rs. 7,000 has been provided on it.

OR

Ratios if MANTIL Limited is given below. You are required to compare the same with Industry standards. Give your interpretation and suggestions to improve the financial performance of the company. [10]

Ratio	MANTIL Limited	Industry Standard
Current Ratio	2.2 : 1	2.75 : 1
Quick Ratio	1.5 : 1	1.2 : 1
Inventory Turnover Ratio	10	7
Average Collection Period	38	46
Debt Equity Ratio	2 : 1	1.4 : 1

- Q3)** A Malborlin Limited has to make a choice between the three investment projects A,B,C. The immediate cash out flow is Rs. 1,00,000 and life of the project is 5 years for each project. The 10% discounting rate is applicable. [10]

You are required to Indicate the ranking for the proposal on the basis of:

- i) NPV
- ii) PI
- iii) ARR

Year	Proposal - A	Proposal - B	Proposal - C
1	40,000	50,000	60,000
2	50,000	30,000	50,000
3	30,000	40,000	50,000
4	50,000	60,000	30,000
5	30,000	30,000	40,000

OR

- a) Calculate Discounted Pay Back Period for the Machines “A” and “B”, Investment for each Machine is Rs. 4,00,000/-

Year	Machine “A”	Machine “B”	P.V. Factor @10%
1	2,00,000	2,20,000	0.909
2	1,70,000	1,40,000	0.826
3	1,50,000	1,60,000	0.751
4	80,000	70,000	0.683
5	50,000	60,000	0.621

- b) Calculate IRR from the following data provided by the XYZ Ltd. Initial investment Rs. 9,00,000 for the project.

Year	CFAT	PV factor @21%	PV factor @22%
1	3,80,000	0.826	0.820
2	3,10,000	0.683	0.672
3	2,40,000	0.564	0.551
4	1,70,000	0.467	0.451
5	4,44,000	0.386	0.370

[10]

- Q4)** Determine the working capital requirement to finance a level of activity of 60,000 units of output for a year. The production activity is carried out evenly throughout year, wages and Overheads accrue. Use Total Cost Approach method of Working Capital Estimation.

[10]

Cost per unit	Rs.
Raw Materials	20
Direct Labour	8
Overheads	6
Total Cost	34
Profit	6
Selling Price	40

Additional Information:

Avg. Stock of RM	1 Month
Avg. WIP	1/2 Month
Stock of Finish Goods	1 Month
Credit allowed to Debtors	1 Month
Credit allowed by Suppliers	1 Month
Time lag in payment of Wages	1 Month
Time lag in payment of Overheads	1 Month
Cash in Hand	20,000

OR

The following information extracted from the books of Alexzandra Ltd.
Compute operating cycle in days. [10]

Period covered	365 days
Avg. Period of credit	16 days

Particulars	(Rs. in 000)
Avg. Debtors Outstanding	480
Raw Materials consumption	4,400
Total Production cost	10,000
Total Cost of Sales	10,500
Sales for year	16,000

Avg. stock maintained	(Rs. in 000)
Raw Materials	320
WIP	350
Finished goods	260

Q5) Explain the concept of capital structure. What are the various factors affecting on Capital Structure? **[10]**

OR

Write Note: **[10]**

- a) MM Approach.
- b) NOI Approach.

