

Total No. of Questions : 5]

SEAT No. :

P5554

[Total No. of Pages : 5

[5565]-2002

M.B.A

**202 : FINANCIAL MANAGEMENT
(2016 Pattern) (Semester - II)**

Time : 2¼ 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 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) “The wealth maximising objective is superior to the profit maximisation objective”, Explain. **[10]**

OR

b) Describe the finance functions as divided into three broad categories.

Q2) a) i) Calculate three leverages from the following data; **[5]**

Units sold (no.)	40000
Unit Sale Price	Rs. 9
Fixed Cost	Rs. 35000
Variable Cost per Unit	Rs. 7
8% debt capital	Rs. 80000

ii) The entire capital structure of a company is provided. Determine the after tax Weighted Average Cost of Capital (WACC), assuming the tax rate of 25%. **[5]**

Components of Capital	Amount (Rs.)
Equity Capital (Expected Dividend 11%)	15,00,000
10.5% Preference Shares	10,00,000
9% Debentures	20,00,000

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OR

- b) i) Calculate the Operating, Financial and Combined Leverage from the following information; [5]

Sales	Rs. 60000
Variable Cost	Rs. 28000
Interest	Rs. 6000
Fixed Cost	Rs. 19000

- ii) Calculate the Weighted Average Cost of Capital (WACC) based on Book Value Weights and Market Value Weights of the company with following capital structure. [5]

Type of Capital	Book Value (Rs.)	Market Value (Rs.)	Post Tax Costs %
Equity	10,00,000	14,00,000	14
Preference Shares	4,00,000	4,50,000	9
Debt	10,00,000	8,00,000	7

- Q3) a) The following is Balance Sheet as on 31st March 2016 of the company.

Liabilities	Rs.	Assets	Rs.
Equity shares of Rs. 10 each	600000	Fixed Assets 3500000	
Reserve Fund	400000	Less: Depreciation 500000	3000000
Profit and Loss A/c	500000	Stock	600000
Long Term Loans	2000000	Debtors	500000
Creditors	450000	Cash	100000
Other Current Liabilities	250000		
	4200000		4200000

Additional Information :

- i) Profit earned during the year is Rs. 450000
- ii) Market Price of Share is Rs. 500
- iii) Ignore provisions regarding taxations

Calculate the following ratios :

[10]

- i) Debt - Equity Ratio
- ii) Current Ratio
- iii) Acid Test Ratio
- iv) Earning per Share
- v) Price Earning Ratio

OR

- b) The following is summarized Balance Sheet as on 31st March 2015 and 2016 of the company. Prepare a schedule of changes in working capital and funds flow statement for the year ended on 31st March 2016. [10]

Liabilities	2015	2016	Assets	2015	2016
Share Capital	80000	90000	Machinery	26000	38000
Profit and Loss A/c	13000	24000	Building	45000	45000
Long Term Loans	1000	5000	Stock	10000	7000
Sundry Creditors	8000	5000	Sundry Debtors	16000	22000
			Cash in hand	5000	12000
	102000	124000		102000	124000

- Q4)** a) i) Despite weaknesses, the payback period method is popular in practice? Explain. [5]
- ii) A company is considering the purchase of a new machine. The cost of machine is Rs. 2250000. The cost of company's capital is 10%, The following cash inflows are expected during six year period. The PVF @10% is also provided for 6 year period.

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Cash Flows (Rs.)	535000	586000	559000	480000	614000	637000
PVF @ 10%	0.909	0.826	0.751	0.683	0.621	0.564

Comment on suitability of the project by using NPV and PI.

[5]

OR

- b) i) Explain the merits and demerits of the time-adjusted methods of evaluating the investment projects. [5]
- ii) There are two capital investment projects X and Y with initial cost of each is Rs. 300000. The cash inflows for both projects are given for five year period.

	Year 1	Year 2	Year 3	Year 4	Year 5
Project X (Rs.)	50000	70000	60000	120000	80000
Project Y (Rs.)	60000	90000	80000	60000	40000

Appraise the projects based on payback period. [5]

- Q5) a) Prepare a statement showing working capital requirement to finance a level of activity of 10400 units per year. The cost structure is provided below :

Particulars	Cost /unit (Rs.)
Raw Materials	10
Direct Labour	5
Overheads	7
Profit	5

Additional Information:

- i) Average raw material in stock - one month
- ii) Average material in process - 2 weeks (Assume 50% of completion stage with full material consumption)
- iii) Average finished goods in stock - one and half month
- iv) Credit allowed by suppliers - one month
- v) Credit allowed to debtors - one month
- vi) Time lag in payment of wages - 2 weeks
- vii) Time lag in payment of overheads - 1 month
- viii) Cash basis sales - 25%
- ix) Cash balance is expected to be Rs. 15000

The production is carried out evenly throughout the year. [10]

OR

- b) From the following information prepare a estimated working capital requirement statement: Projected annual sales 31200 units. Selling Price per unit is Rs. 80. [10]

Particular	Cost per Unit as % of selling price
Raw Materials	45%
Direct Labour	25%
Overheads	15%

Additional Information;

- i) Average raw material in stock - 3 weeks
- ii) Average work in progress - 5 weeks (Assume 50% of completion stage with full material consumption)
- iii) Average finished goods in stock - 2 weeks
- iv) Credit allowed by creditors - 4 weeks
- v) Credit allowed to debtors - 3 weeks
- vi) Time lag in payment of wages and overheads - 2 weeks
- vii) Cash balance is expected to be Rs. 40000
- viii) All sales are on credit basis only.

The production is carried out evenly throughout the year.

