Total No. of Questions :5]

SEAT No. :

P2269

[Total No. of Pages : 8

[5465]-202

M.B.A.

202 : FINANCIAL MANAGEMENT

(Revised 2013 & CBCS 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) A reputed business company in the energy sector is planning to enter into consumer durables sector. How will you define your role as a finance executive for the new venture? **[10]**

OR

b) 'Financial Management Plays an important role in any corporate organization'. Express your views. **[10]**

Q2) a) The ratios of two leading firms in the Heavy Commercial Vehicles (HCV) sector namely; Tetra Motors and Ravindra Auto are provided for the year ended on 31st March 2018. Interpret these ratios and comment on the relative financial performance of these companies. **[10]**

Ratios	Tetra Motors	Ravindra Auto
Current Ratio	0.65	0.89
Quick Ratio	0.42	0.47
Gross Profit Margin %	4.74	6.79
Net Profit Margin %	2.27	4.25
Total Debt to Equity	0.57	0.83
Fixed Assets Turnover Ratio	1.67	2.02
Inventory Turnover Ratio	11.55	6.64
EPS (Rs)	3.92	2.14

OR

b) From the following balance sheets as on 31st March 2017 and 31st March 2018 you are required to prepare a statement of funds flow. **[10]**

P.T.O.

Balance Sheet

	Amt (Rs)			Amt (Rs)	
Liabilities	31-03-2017	31/03-2018	Assets	31/03/2017	31/03/2018
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 2017-18.

ii) Income Tax paid during the year 2017-18 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.

	Yr 1	Yr 2	Yr3	Yr 4	Yr 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 cotracts is considering a proposal for the purchase of earth moving equipment. The data on the proposal is given below.

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	Amt. (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 based on pay-back period. **[5]**

Q4) a) A Proforma cost-sheet of a Prafulla 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.

Raw materials are in stock on an average one month. Materials are in process on an average half a month. Finished goods are in stock on an average one month. Credit allowed by suppliers is one month. Credit allowed to debtors is two months. Lag in payment of wages and overheads is 1 month. One fourth of the output is sold against cash. 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 Cost 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 p.u.	Amt.(Rs.)
Raw Materials	20
Direct Labour	5
Overheads	15
Total cost	40
Profit	10
Selling Price	50

The annual production is 2,40,000 units. It is the policy of the company is to maintain the stock of raw materials equivalent to one month's production. Half a month's production will remain in process throughout the year where as stage of completion is 50% for Material, Labour and Overheads. The finished goods remain in warehouse on an average for a month. The company sells its goods on credit and allows two month's credit to its customers. The suppliers of raw materials provide 3 months credit to the company. The period of lag for wages and overheads is one month. 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.* **[10]**

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 cosidered for raising the long-term funds to finance the plan? **[5]**

ii) The entire capital structure of a companyis 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
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) Ravina Ltd. has the following capital structure.

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 market values. **[5]**

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5) ***Use of Simple Calculator is permitted.***

Q1) a) Explain the functions of finance Manager of globally corporate entity. **[10]**

OR

b) Define 'Finacial Management'. Explain the goals of Financial Management. **[10]**

Q2) a) From the following balance sheets of Star Ltd, prepare funds flow statement : **[10]**

Liabilities	31.03.2014 Rs.	31.3.2015 Rs.	Assets	31/3/2014 Rs.	31/3/2015 Rs.
Equity share Capital	3,00,000	4,00,000	Goodwill	1,15,000	90,000
Redeemable Pref. Share 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
Creditors	55,000	83,000	Stock	77,000	1,09,000
Bills Payable	20,000	16,000	Bills receivable	20,000	30,000
Provision for taxation	40,000	50,000	Cash in hand	15,000	10,000
Proposed Dividend	42,000	50,000	Cash at bank	10,000	8,000
Total Rs.	6,77,000	8,17,000	Total Rs.	6,77,000	8,17,000

<u>Additional Information</u> :-

i) Depreciation of Rs. 10,000 and Rs. 20,000 has been changed on plant and land & buildings respectively.

ii) An interim dividend of Rs. 20,000 has been paid

iii) Income tax Rs. 35,000 has been paid.

OR

b) From the following ratio's of 'Z' Ltd, indicate your interpretation of the company's financial position. **[10]**

Particulars	Year I	Year II
Net Profit Ratio	5.66	2.60
Current Ratio	1.35	1.05
Debt Equity Ratio	0.89	0.66
Fixed Assets Turnover Ratio	1.66	2.03
Debtors Turnover Ratio	15 times	6.50 times

Q3) a) Sunshine Ltd. is considering investing in a project that is expected to cost Rs.12,00,000. The expected cash inflows [before tax & dep.] are given below. The company is using straight line method of dep. **[10]**

Cash inflows [before tax & dep.]

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

PV. Value [1^{st} year $\rightarrow$ 0.909, 2^{nd} year $\rightarrow$ 0.826 at 10% 3^{rd} year $\rightarrow$ 0.751, 4^{th} year $\rightarrow$ 0.683, 5^{th} year $\rightarrow$ 0.621]

Calculate i) Pay back period &

ii) NPV

OR

b) A company is to start a new project which is having cost of Rs. 1,00,000/- and life of 5 years. Salvage value is nil, tax rate for the company is 50% and it follows straight line method of dep. The cash flows before tax (CFBF) are as follows. **[10]**

Year	CFBF (Rs)
1	20,000
2	21,000
3	40,000
4	60,000
5	70,000

Compute i) Payback period

ii) Average rate of return

Q4) a) Estimate working requirements for financing an activity of 52,000 units of production at following cost. **[10]**

Particulars	Cost per unit
Raw Material	Rs. 60
Direct labour	Rs. 25
Overheads	Rs. 40
Total cost	Rs. 125
Profit	Rs. 40
Selling Price	Rs. 165

The additional information provided is as follow.

i) Raw material in stock - 4 weeks

ii) Work in progress - 2 weeks

iii) Finished goods - 4 Weeks

iv) Credit period allowed to customer - 2 months

v) Credit period allowed by supplier - 1 month

vi) Delay in payments of wages - 2 weeks

vii) Delay in payments of o/hs. -1 month

Out of total sales, cash sales are 50%

Cash balance expected - Rs. 12,500/-

[Note 1) 1 month = 4 weeks
1 year = 365 days - 52 weeks]

2) For W-1-P, consider 100% raw material (direct labour and Overheads 100%).

OR

b) A proforma cost sheet of a company provides the foll particulars. **[10]**

Elements of cost	Amt. per units
Raw material	80
Direct labour	30
Overhead	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available.

- Raw materials are in stock for one month.
- Credit allowed by suppliers of raw material is one month
- Credit allowed to customers is two months.
- Lag in payment of wages 1.5 weeks.
- Lag in payment of overheads one month.
- Materials are in process for an average of half month.
- Finished goods are in stock for an average of one month.
- $\frac{1}{4}^{th}$ of output is sold against cash.

- Cash in hand and at bank is expected to be Rs. 25,000.

You are requested to prepare a statement showing the working capital needed to finance level of activity of 1,04,000 units of product.

You may assume that production is carried on evenly throughout the year, wages and o\hs accure similarly and a period of 4 weeks is equivalent to a month. Also assume for W/P, raw material 100%, direct labour 50%, o/hs 50%.

Q5) a) Short Notes on : **[10]**

i) Cost of capital

ii) NI Approach

OR

b) Short notes on : **[10]**

i) NOI Approach

ii) MM Approach