Oct/NOV-2022

Total No. of Questions : 5]

SEAT No. :

PA-4166

[Total No. of Pages : 4



# [5946]-202

# M.B.A.

# GC-08 : FINANCIAL MANAGEMENT

# (2019 Pattern) (Semester-II)

*Time : 2½ Hours]* *[Max. Marks : 50*

*Instructions to the candidates :*

1) *All questions carry 10 marks each.*
2) *All questions are compulsory.*
3) *In case of answering numericals, working notes should be part of the answer.*
4) *Simple/Non-scientific calculator is alllwed.*

*Q1)* **Attempt any Five:** **[5 × 2 = 10]**

a) Enlist the functions of a finance manager.

b) What is a "common size statement?"

c) What is financial leverage? How is it different from operating leverage?

d) Discuss in brief the concept of Net Present Value (NPV)

e) What is 'Trading on Equity'?

f) Differentiate between current ratio & quick ratio/acid test ratio.

g) Cost of equity capital $K_e$ is always more than cost of Debt capital $K_d$" ___ This statement is

i) False ii) True iii) Can't say

*Q2)* **Answer any Two:** **[2 × 5 = 10]**

1) Elaborate the determinants of capital structure.

2) Discuss in brief the factors responsible for determining the need of working capital.

3) Compare the traditional methods of capital budgeting with the modern methods/techniques of capital budgeting.

4) What are Turnover Ratios ? Explain any two turnover ratios.

*P.T.O.*

*Q3)* a) Following data is extracted from the books of XYZ ltd.

| | (Rs) |
|---|---|
| sales | 5,00,000 |
| less: variable cost | 1,50,000 |
| contribution | 3,50,000 |
| less: fixed cost | 1,00,000 |
| EBIT | 2,50,000 |
| less: Interest | 50,000 |
| EBT | 2,00,000 |

Calculate: i) Degree of operating leverage.

ii) Degree of Financial leverage.

iii) Degree of combined leverage.

Also,

Calculate DOL, DFL & DCL if sales increase by 6% with other factors remaining same.

**OR**

b) Based on the given information of PQR Ltd,

Calculate: i) Gross profit ratio

ii) Current ratio

iii) Stock Turnover Ratio (based on COGS)

iv) Debt equity ratio

v) Average collection period.

Income statement of PQR Ltd.

| | (Rs) |
|---|---|
| sales | 10,00,000 |
| raw materials consumed | 2,00,000 |
| wages | 2,00,000 |
| manufacturing expenses | 1,00,000 |
| cost of goods sold | 5,00,000 |
| administrative expenses | 50,000 |
| selling & distribution expenses | 50,000 |
| Net profit | 4,00,000 |

Balance sheet of PQR Ltd as on 31st March

| Liabilities | Amount (Rs.) | Assets | Amount (Rs.) |
|---|---|---|---|
| Equity capital | 2,00,000 | Fixed assets | 2,50,000 |
| Reserves | 1,50,000 | Stock | 2,50,000 |
| Debentures | 2,00,000 | Debtors | 1,00,000 |
| Creditors | 1,00,000 | Cash & bank | 1,00,000 |
| Bank O.D. | 50,000 | | |
| Total | 7,00,000 | Total | 7,00,000 |

*Q4)* a) Alfa Ltd has currently an ordinary share capital of Rs. 25 lakh, consisting of Rs. 25,000 shares of Rs. 100 each.

The management is planning to raise another Rs. 20 lakh to finance a major programme of expansion through one of the 3 financial plans, given below.

i) Entirely through Equity Shares

ii) Rs.5 lakh through equity shares & Rs.15 lakh through long-term borrowings at 16% P.A. interest.

iii) Rs.10 lakh through ordinary shares & Rs.10 lakh through preference shares with 14% dividend.

This company is expected to earn EBIT of Rs.8 lakh. Assuming a tax rate of 35% determine the EPS in each alternative & comment on implications of financial leverage. Which alternative should be selected?

**OR**

b) XYZ Ltd sells its products on a gross profit of 20% on sales. Following information is extracted from its annual accounts for the year ended on 31st March.

| | |
|---|---|
| Sales at 3 month's credit | Rs. 40,00,000 |
| Raw material | Rs. 12,00,000 |
| Wages- avg time lag 15 days | Rs. 9,60,000 |
| Mfg.expenses-paid one month in arrears | Rs. 12,00,000 |
| Admin. expenses, paid one month in arrears | Rs. 4,80,000 |
| Sales promotion expenses-payable half yearly in advance. | Rs. 2,00,000 |

This company enjoys one month's credit from its suppliers of raw materials & maintains 2 month's stock of raw materials & 1½ month's stock of finished goods. Cash balance of Rs.1,00,000 is maintained. Assuming 10% margin, findout the working capital needs of XYZ Ltd.

*Q5)* a) ABC Ltd, whose cost of capital is 10% is considering two mutually exclusive projects X & Y. The details of which are:

| Particulars | | Project X(Rs.) | Project Y(Rs.) |
|---|---|---|---|
| Investment-: | | 70,000 | 70,000 |
| Cash inflow: year | 1 | 10,000 | 50,000 |
| | 2 | 20,000 | 40,000 |
| | 3 | 30,000 | 20,000 |
| | 4 | 45,000 | 10,000 |
| | 5 | 60,000 | 10,000 |
| | | 1,65,000 | 1,30,000 |

Calculate NPV, P I of Project X & Project Y. Which project should be selected? Why?

PVF @ 10% for year 1 to 5 are (0.909, 0.826, 0.751, 0.683, 0.621)

**OR**

b) Calculate the cost of capital in following cases.

i) X Ltd issues 12% debentures of face value Rs.100 each & realizes Rs.95 per debenture. These debentures are redeemable after 10 years at a premium of 10%

&

ii) Y Ltd issues 14% preference shares of face value of Rs.100 each at Rs.92 these shares are repayable ( redeemable) at par after 12 years. Assume that both the companies are paying income tax at 50%.

⧓ ⧓ ⧓