

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 allwed.

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,

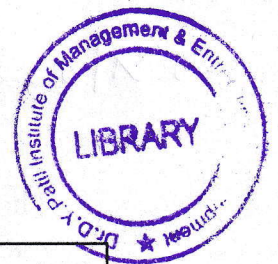
Calculate DOL, DFL & DCL if sales increase by 6% with other factors remaining same.

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%.

