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First Year M.BA.

202-GC-08 : FINANCIAL MANAGEMENT

(2019 Pattern Revised) (Semester-II)

Time : 2½ Hours] *[Max. Marks : 50*

Instructions to the candidates:

1) *All questions are compulsory.*
2) *Each question carry equal marks.*
3) *Use of simple calculator is allowed.*

Q1) Solve any five **[5×2=10]**

a) maximisation of wealth of Shareholders is reflected in.

i) Sales maximisation ii) Number of Shareholders

iii) Market price of equity shares iv) Stock market index

b) Which of the following is a measure of debt service capacity of a firm

i) Current Ratio ii) Debt-equity Ratio

iii) Debtors turnover Ratio iv) Interest coverage ratio

c) In case, the firm is all equity financed, WACC would be equal to

i) Cost of debt ii) Cost of equity

iii) Neither (i) Nor (ii) iv) Cost of equity plus cost of debt

d) Which is not a part of investment decision in financial management.

i) Dividend payout decision

ii) Capital budgeting decision

iii) Working capital management

iv) Credit policy towards customers

e) The figures shown in financial statement are converted to percentage so as to establish each element to the level of the statement in

i) Common size statement ii) Comparative statement

iii) Cash flow statement iv) Trend ratios

f) How wealth of shareholder is calculated ?

g) Write the formula to compute operating leverage and financial leverage.

h) Define fund flow statement.

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Q2) Solve any 2 **[2×5=10]**

a) How the wealth maximisation is better operative criterion than profit maximisation.

b) Write a note on comparative financial statements.

c) Explain the concept of trading on equity.

Q3) a) JKL Ltd. has the following book value capital structure as on 31-03-2023: **[10]**

Source	Amount (₹)
Equity share capital (2,00,000 shares)	40,00,000
11.5% preference shares	10,00,000
10% Debentures	30,00,000

The equity share of the company sells for ₹ 20 the next expected dividend is Rs. 2 per share. It is expected to grow at 5% p.a. for ever. Assume a 35% corporate tax Rate. Required.

i) Compute WACC of the company based on the existing capital structure.

ii) Compute the new WACC, if the company raises an additional ₹ 20 lakhs debt by issuing 12% debentures this would result in increasing the expected equity dividend to ₹ 2.40 and leave the growth rate unchanged, but the price of equity share will fall to ₹ 16 per share.

OR

b) ABC Ltd. has an annual sale of 50,000 units at ₹100 per unit the company works for 50 weeks in the year. The cost break up is given as below.

Element of Cost	Cost/Unit (₹)
Raw material	30
Labour	10
Overheads (including depreciation ₹5)	20
Total cost	60
Profit	40
Selling price	100

The company has the practice of storing raw materials for 4 weeks requirement. Wages and other expenses are paid after a las of 2 weeks. The debtors enjoy a credit of 10 weeks and company gets a credit of 4 weeks from supplier. The processing time is 2 weeks and finished goods inventory is maintained for 4 weeks.

From the above information determine a working capital requirement. Allowing for 15% contingencies by cash cost approach.

Q4) a) AB Ltd. has the following profit & loss A/c for the year. Ending 31st March 2023 and the Balance sheet as on that date **[10]**

Profit & Loss Account

Particulars	Amount (₹ in Lakhs)	Particulars	Amount (₹ in Lakhs)
Opening stock	1.75	Sales : Credit	12.00
Add : manufacturing cost	10.75	Sales : Cash	3.00
Less : Closing stock	(1.50)		
Cost of goods sold	11.00		
Gross profit	4.00		
	15.00		15.00
Administrative exp	0.35	Gross profit	4.00
Selling exp	0.25	Royalty income	0.09
Depreciation	0.50		
Interest	0.47		
Income tax	1.26		
Net profit	1.26		
	4.09		4.09

Balance Sheet

Liabilities	Amount (₹ in Lakhs)	Assests	Amount (₹ in Lakh)
Equity shares of Rs. 10	3.50	Plant & Machinery	7.50
10% preference shares	2.00	Goodwill	1.40
Reserve & surplus	2.00	Stock	1.50
Long term loan (12%)	1.00	Debtors	1.00
Debentures (14%)	2.50	Prepaid expenses	0.25
Creditors	0.60	marketable Securities	0.75
Bills payable	0.20	Cash	0.25
Accrued expenses	0.20		
Provision for tax	0.65		
	12.65		12.65

Comment on the financial position of the company on the basis of following ratios.

i) Current ratio

ii) Debt equity Ratio

iii) Interest coverage Ratio

iv) Stock Turnover Ratio.

v) Debtors turnover Ratio

OR

b) XYZ Ltd. has obtained the following data concerning the average working capital cycle for other companies in the same industry. Using the data determine working capital cycle for the company and briefly comment on it

Raw material stock turnover	20 days
Credit received	40 days
WIP turnover	15 days
Finished goods stock turnover	40 days
Debtors collection period	60 days
	95 days

The company has provided following information

Particular	Amount
Sales	30,00,000
Cost of production	21,00,000
Purchases	6,00,000
Average raw material in stock	80,000
Average WIP	85,000
Average FG	1,80,000
Average creditors	90,000
Average Debtors	3,50,000

Q5) a) Machine a Cost ₹ 1,00,000 payable immediately. Machine B costs ₹1,20,000 half payable immediately and half payable in one year's time. The cash receipts expected are as follows. **[10]**

year (at end)	Machine A (₹)	Machine B (₹)
1	20,000	0
2	60,000	60,000
3	40,000	60,000
4	30,000	80,000
5	20,000	0

At 7% opportunity cost. Which machine should be selected on the basis of NPV ? Will your decision change if proposals are evaluated on the basis of IRR?

OR

b) A firm whose cost of capital is 10% is considering two mutually exclusive project X and Y. the details of which are.

Year	Project X (₹)	Project Y(₹)
0	1,00,000	1,00,000
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

Evaluate the project on the basis of Net present value, profitability Index and IRR and suggest most profitable investment.

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