Total No. of Questions : 5]

SEAT No. :

PB4386

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[6201]-202
First Year M.B.A.
GC-08-202 : FINANCIAL MANAGEMENT
(2019 Pattern Revised) (Semester - II)

Time : 2 ½ Hours] *[Max. Marks : 50*

Instructions to the candidates:

1) *All questions are compulsory.*
2) *Figures to the right indicate full marks.*
3) *All questions carry equal marks.*
4) *Use of simple calculater is allowed.*

Q1) Answer any five out of eight (2 marks each) **[10]**

a) _____ refers to the that part of capital which is available and used to carrying out the regular business operations.

i) Working capital ii) Fixed capital

iii) Required capital iv) Current capital

b) What is Business finance?

c) What is Internal Rate of Return?

d) Net operating cycle = (Inventory conversion period + _____) – (_____).

e) List the factors affecting capital structure of the firm.

f) List the characteristics of capital budgeting decisions.

g) The modern approach to financial management view___.

i) The total funds requirement of the firm.

ii) The assets to be acquired

iii) The pattern of financing the assets

iv) All of the above

h) The figures shown in financial statements are converted to percentages so as to establish each element to the total figure of the statement in _____.

i) Comparative financial statements

ii) Trend analysis

iii) Common size statement

iv) Fund flow statement

P.T.O.

Q2) Answer any two **[10]**

a) Explain relevance of Time value of Money in capital budgeting decision.

b) "Financial management is nothing but managerial decision making on asset mix, capital mix and profit allocation". Explain.

c) What is working capital? Explain in brief objectives of working capital.

Q3) A) a) The capital structure of a company consists of equity shares of Rs. 50 lakhs; 10% preference shares of Rs.10 lakhs and 12% debentures of Rs. 30 lakhs. The cost of equity capital for the company is 14.7% and income tax rate for this company is 30%.You are required to calculate the WACC. **[5]**

b) Annual sales of a company is Rs. 60,00,000. Variable cost is 60% of sales and fixed cost other than interest is Rs. 5,00,000 P.a. Company has 11% debentures of Rs. 30,00,000. You are required to calculate the operating and financial leverage of the company. **[5]**

OR

B) RT Ltd., presents you its budgeted profit & loss account for the year ended 31st March 2024 as under and request you to estimate working capital requirement by total cost approach. **[10]**

Particulars	Amount (Rs.)	Amount (Rs.)
Sales		45,00,000
Less: Expenses		
1) Material	18,00,000	
2) Labour	13,50,000	
3) Expenses	4,50,000	36,00,000
Profit		9,00,000

Additional Information

i) The production and sales take place evenly throughout the year.

ii) Raw material carried in stock for one month and finished goods for half month.

iii) The production cycle takes one month.

iv) There is a custom in market both for purchase of raw material and sales of finished goods to give two months credit.

v) Time lag in payment of wages is 1 month.

vi) 25% of sales for cash and balance on credit.

vii) Cash on hand and at bank Rs. 62,500.

Q4) a) Given below are the selected ratios for two companies A and B in the same industry along with industry average. **[10]**

Ratios	A	B	Industry
Current ratio	2.21	5.61	2.41
Acid test ratio	1.21	3.01	1.31
Debt to asset ratio	36%	5%	35%
Operating expenses ratio(%)	18%	17.5%	20%
Number of times interest paid	6	12	5
Stock turnover	8.5	6.5	7
Debtors turnover	11	15	11.4
Rate of Return on total Assets	17%	10%	13%

Can we say on the basis of the above ratios and information, that company 'B' is better than company 'A' because its ratios are better in six out of eight areas?

OR

b) A company is considering different methods to finance its investment proposal. It is estimated that initially Rs. 50,00,000 will be needed. Two different alternatives are available to raise the funds. **[10]**

i) To raise Rs. 20,00,000 by sale of equity shares of Rs. 100 each and balance at 18% term loan.

ii) To raise entire amount by sale of equity shares of Rs. 100 each. The existing capital structure of the company consist of

1) 50,000 equity shares of Rs. 100 each

2) 17% term loan of Rs . 20,00,000.

The expected EBIT is Rs. 15,00,000. Advise the company on the basis of EPS in each alternative. Assume income tax rate is 50%.

Q5) a) XYZ Ltd. is considering purchase of a machine in replacement of an old one. Two machines viz. 'CMW' and 'KLR' are offered at price of Rs. 22,50, 000 and Rs. 30,00,000 respectively further, particulars regarding these models are given below: **[10]**

Particulars	CMW	KLR
Economic life (years)	5	6
Scrap value at the end of economic life	Rs. 2,00,000	Rs. 2,50,000
Net cash in flow (Rs.)		
Year1	5,00,000	6,00,000
Year2	7,50,000	8,00,000
Year3	10,00,000	10,00,000
Year4	9,00,000	12,00,000
Year5	8,50,000	10,50,000
Year 6	–	9,50,000

Present value factor at 12% P.a. are as follows:

Year	1	2	3	4	5	6
P.V. factor	0.893	0.797	0.712	0.636	0.567	0.507

Evaluate the two proposals according to pay back period and net present value method . Which machine would you recommend and why?

OR

b) Following are the Income statement and Balance sheet of ABC Ltd. for the year 2022 and 2023. Prepare comparative Income statement and comparative Balance sheet. **[10]**

Income statement

Particulars	2022	2023	Particulars	2022	2023
To COGS	3,00,000	3,75,000	By Net sales	4,00,000	5,00,000
To General expenses	10,000	10,000			
To Selling expenses	15,000	20,000			
To Net Profit	75,000	95,000			
Total	4,00,000	5,00,000	Total	4,00,000	5,00,000

Balance Sheet

Liabilities	2022	2023	Assets	2022	2023
Capital	3,50,000	3,50,000	Land	50,000	50,000
Reserve	1,00,000	1,22,500	Building	1,50,000	1,35,000
Secured loans	50,000	75,000	Plant	1,50,000	1,35,000
Creditors	1,00,000	1,37,500	Furniture	50,000	70,000
Outstanding expenses	50,000	75,000	Cash	50,000	70,000
			Debtors	1,00,000	1,50,000
			Stocks	1,00,000	1,50,000
	6,50,000	7,60,000		6,50,000	7,60,000