

Code: BA2T1

## **I MBA - II Semester - Regular Examinations JULY 2014**

### **FINANCIAL MANAGEMENT**

Duration: 3 hours

Max. Marks: 70 M

#### **SECTION-A**

**1. Answer any FIVE of the following:**

**5 x 2 = 10 M**

- a. Profit Vs. Wealth maximization
- b. Accounting rate of return
- c. Cost of debt
- d. Risk adjusted discount rate
- e. Stable dividend policy
- f. Optimum capital structure
- g. Operating leverage
- h. Retained earnings

#### **SECTION – B**

**Answer the following:**

**5 x 10 = 50 M**

2. a) Explain the discounted cash flow techniques of capital budgeting.

OR

b) Following are details of a proposed project

Initial outlay Rs.90,000

Initial working capital Rs.20,000

Cash flow before depreciation;	Rs.
1st year	35,000
2nd year	35,000
3rd year	30,000
4th year	30,000

Salvage value Rs.20,000

Tax rate assumed to be 50%

The project is depreciated on Straight Line method of depreciation. If the required rate of return is 10% is the project acceptable under the NPV method?

P.V factor at 10 %;

<b>Year ;</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>
<b>PV factor</b>	<b>.909</b>	<b>.826</b>	<b>.751</b>	<b>.683</b>	<b>.620</b>	<b>.564</b>

3. a) What is capital structure planning? Discuss the determinants of optimum capital structure.

OR

- b) A company is considering raising of funds of about Rs.100 lakhs by one or two alternative methods, Viz.;
- 14% institutional term loan and
  - 13% non-convertible debentures.

The term loan option would attract no major incidental cost.

The debentures would have to be issued at a discount of 2.5% and would involve cost of issue of Rs. 1 lakh. Advise the company as to the better option based on the effective cost of capital in each case. Assume a tax rate of 50%.

4. a) What are the key positions with respect of the dividend policy. Explain.

OR

- b) A company has the following Capital  
Rs.

7% preference shares of Rs.100 each 6,00,000

Ordinary shares of Rs.10 each 16,00,000

Total 22,00,000

The following information is available relating to its financial year ending 31st December, 2012.

1. Profit, after taxation at 40% Rs.5,42,000

2. Ordinary dividend paid 20%

3. Depreciation Rs.1,20,000

4. Market price of ordinary shares Rs.40

5. Capital commitment Rs.2,40,000

You are required to calculate the following;

- i. The dividend yield on ordinary shares.
- ii. The cover for the preference and ordinary dividends.

5. a) Discuss about the sources of working capital for a firm.

OR

b) You are supplied with the following information in respect of XYZ Ltd. for the current year 2011-12.

Production for the year	69,000 units
Finished goods in store	3 months
Raw material in store	2 months consumption
Production process	1 month
Credit allowed by creditors	2 months
Credit given to debtors	3 months
Selling price per unit	Rs.50
Raw material	50% of selling price
Direct wages	10% of selling price
Overheads	20% of selling price

There is a regular production and sales cycle. Wages and overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of the production cycle.

You are required to find out the amount of Working Capital Required.

6. a) Discuss about the techniques of inventory management

OR

b) Kiran & Co has furnished the following information. Based on this, prepare a cash budget for three months June, July and August, 2012.

Month	Sales	Materials Purchases	Wages	Production overheads	Office & Selling Expenses
	Rs.	Rs.	Rs.	Rs.	Rs.
June-2012	72,000	25,000	10,000	6,000	5,500
July-2012	97,000	31,000	12,100	6,300	6,700
Aug-2012	86,000	25,500	10,600	6,000	7,500

**Assumptions:**

1. Cash balance in hand as on 1-6-2012 Rs.72,500
2. 50% of sales are cash sales
3. A fixed asset has to be purchased for Rs.8,000 in July 2012
4. Debtors are allowed One month's credit
5. Creditors for materials grant One month's credit
6. Sales commission at 3% on sales is paid to the sales man each month.

**SECTION – C**

**7. Case Study**

**1 x 10 = 10 M**

The management of Gemini Ltd., has called for a statement showing the working capital needed to finance a level of activity of 3,00,000 units of output for the year. The cost structure for the company's product for the above mentioned activity level as given below:

	Cost per Unit
	Rs.
Raw material	20
Direct labour	5
Overheads	15
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Total cost	40
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Profit	10
Selling price	50

Past trends indicate raw material held in stock on an average, for two months. Work in progress will approximate to half –a-month production. Finished goods remain in warehouse on an average for a month suppliers of materials extend a month credit. Two months credit is allowed to Debtors. A minimum cash balance of Rs.20,000 expected to be maintained. Assuming the production pattern is even. Prepare a statement of working capital requirements of Gemini Ltd