MBA.F.II/05.12.333

MBA (FT) DEGREE II SEMESTER EXAMINATION MAY 2012

SMS 2204 FINANCIAL MANAGEMENT

Time: 3 Hours

Maximum Marks: 50

(5 × 10 = 50)

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

OR

B. Following is the balance sheet of Mahavir Limited as on 31st March, 2005:

Liabilities	₹	**Assets**	₹
Share capital	3,00,000	Goodwill	40,000
Share premium	10,000	Land	1,60,000
General reserve	1,20,000	Plant	88,000
Profit and loss account	34,000	Furniture	6,000
11% debentures	1,00,000	Trade investments	1,60,000
Bank loan	70,000	Accounts received	1,40,000
Bank overdraft	40,000	Inventories	1,20,000
Sundry creditors	1,20,000	Prepared expenses	10,000
Provision for taxation	20,000	Cash at bank	80,000
		Preliminary expenses	10,000
TOTAL	**81,4000**		**81,4000**

Prepare the above balance sheet in vertical form for showing the following:

(i) Fixed Assets
(ii) Intangible assets
(iii) Fictitious assets
(iv) Quick assets
(v) Current assets
(vi) Net worth
(vii) Long term liabilities
(viii) Quick liabilities
(ix) Working capital

II. A. XYZ Ltd. had the following Balance sheet for the year ended 31st March, 2009.

Liabilities	₹ (Lakhs)	**Assets**	₹ (Lakhs)
Equity capital (one lakh shares of ₹10 each)	10	Fixed assets (net)	25
Reserves and surplus	2	Current assets	15
15% debentures	20		
Current liabilities	8		
TOTAL	**40**		**40**

Additional information

(a) Fixed costs per annum (excluding interest) : ₹ 8 lakhs
(b) Variable operating cost ratio : 80%
(c) Total asset turnover : 3
(d) Income Tax : 50%

Calculate:

(i) Earnings per share
(ii) Operating leverage
(iii) Financial leverage
(iv) Combined leverage
(v) Current ratio

OR

(P.T.O.)

B. A company earned a profit of ₹30,000. during the year 2004-05. If the marginal cost and selling price of the product are ₹ 8 and ₹10 per unit respectively, find out the margin of safety. Further, study the table given below:

Period	**Sales**	**Profit**
Period I	₹ 10000	₹ 2000
Period II	₹ 15000	₹ 4000

Calculate:

(i) P/V ratio (ii) Fixed cost
(iii) Break even sales volume (iv) Sales to earn a profit of ₹3000
(iv) Profit, when sales are ₹8000

III. A. A firm can invest ₹10,000 in a project with a life of three years. The projected cash flows are as follows:

Year	1	2	3
Cash inflows ₹	4000	5000	4000

The cost of capital is 10% p.a. Should the investment be made?

OR

B. What do you understand by Weighted Average Cost of Capital? A company is considering the following to raise additional capital for its expansion schemes:

Equity (% of total capital)	**Debt** (% of total capital)	**Cost of equity** %	**Cost of debt** (pre-tax) %
75	25	16	12
50	50	18	14
25	75	24	18

Tax rate is 50%. Which option would you recommend? Show workings.

IV. A. ABC Ltd. wants to install a new machine in the place of an existing old one which has become obsolete. The company made extensive enquires and from the replies received, short listed two offers. The two models differ in cost, output and anticipated net revenue. The estimated life of both the machines is five years. There will be only negligible salvage value at the end of the fifth year. Further details are as below:

₹ lakhs

Machine Cost		Anticipated after-tax flow				
		Year I	Year 2	Year 3	Year 4	Year 5
A	25	-	5	20	14	6
B	40	10	14	16	17	8

The company's cost of capital is 16%. You are required to make an appraisal of the two offers and advise the firm by using the following:

(i) Payback period (ii) Net present value
(iii) Profitability index (iv) IRR

OR

B. Enumerate the various methods for evaluation of capital expenditure projects.

Contd......3.

V. A. XYZ company has prepared its annual budget, relevant details of which are reported below:

(a)	Sales ₹46.80 lakhs 25% cash sales and balance on credit	: 78,000 units
(b)	Raw material cost	: 60% of sales value
(c)	Labour cost	: ₹6 per unit
(d)	Variable overheads	: ₹1 per unit
(e)	Fixed overheads	: ₹5 lakhs (including ₹1,10,000 as depreciation)
(f)	Budgeted stock levels:	
	Raw materials	: 3 weeks
	Work in progress	: 1 week (material 100%, labour and overheads 50%)
(g)	Debtors are allowed credit for 4 weeks	
(h)	Creditors allow 4 weeks credit	
(i)	Wages are paid bimonthly ie. By the 3rd week and by the 5th week for the 1st and 2nd weeks and 3rd and 4th weeks respectively.	
(j)	Lag in payment of overheads	: 2 weeks
(k)	Cash in hand required	: ₹50,000

Prepare the working capital budget for the year for the company, making whatever assumptions that you may find necessary.

OR

B. What is inventory control? Discuss the various techniques involved in detail.

***