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REV-00
MBA /39 /44

2013/02

# MBA
## Second Semester
## Financial Management
## (MBA- 10)

**Duration: 3Hrs.** **Full Marks: 70**

## (PART-B: Descriptive)

**Duration: 2 hrs. 40 mins.** **Marks: 50**

**1. Answer any five of the following:** **3 x 5 =15**

(a) "The profit maximization is not an operationally feasible criterion". Do you agree? Illustrate your views.
(b) Distinguish between fund flow statement and a cash flow statement.
(c) Write three advantages of payback period method of project evaluation.
(d) Briefly explain and illustrate the concept of 'time value of money'.
(e) How is the weighted average cost of capital calculated?
(f) Write any three assumptions of Modigliani-Miller Approach of capital structure planning.
(g) Distinguish between gross working capital and net working capital.

**2. Answer any five of the following:** **5 x 5=25**

(a) Briefly explain the key activities of financial manager.
(b) Explain briefly the factors that determine the size of the investment a company makes in Accounts Receivables.
(c) Explain briefly the factors that affect the planning of capital structure of a firm.
(d) The cost of capital (after tax) of a company of the specific sources is as follows:

| | |
|---|---|
| Cost of Debt | 4.00% |
| Cost of Preference Shares | 11.50% |
| Cost of Equity Capital | 15.50% |
| Cost of Retained Earnings | 14.50% (assuming external yield criterion) |

Capital Structures are:

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| Sources | Amount Rs. |
|---|---|
| Debt | 3, 00,000 |
| Preference Share Capital | 4, 00,000 |
| Equity Share Capital | 6, 00,000 |
| Cost of Retained Earnings | 2, 00,000 |

Calculate the weighted average cost of capital using 'Book Value Weights'.

(e) Prepare a Schedule of Working Capital Changes from the following Balance Sheets of Z Ltd.

| | 31st Dec. 2011 | 31st Dec.2010 |
|---|---|---|
| *Assets:* | | |
| Goodwill | 10,000 | 15,000 |
| Cash | 80,000 | 35,000 |
| Debtors | 1,15,000 | 1,20,000 |
| Closing Stock | 1,25,000 | 92,000 |
| Long-term Investments | 30,000 | 26,000 |
| Preliminary Expenses | 6,000 | 8,000 |
| | 3,66,000 | 2,96,000 |
| *Liabilities:* | | |
| Bills Payable | 10,000 | 5,000 |
| Sundry Creditors | 90,000 | 80,000 |
| Loans (Payable during 2012) | 30,000 | - |
| Share Capital | 1,60,000 | 1,40,000 |
| Profit & Loss Account | 76,000 | 71,000 |
| | 3,66,000 | 2,96,000 |

(f) Calculate current assets and inventory from the following information:
Current Ratio = 2.6:1
Liquid Ratio = 1.5:1
Current Liabilities = Rs. 40,000

(g) X Ltd. is contemplating an investment of Rs. 10,00,000 in a new plant, which will provide a salvage value of Rs. 80,000 at the end of its economic life of 5 years. The profits after depreciation and tax are estimated to be as under:

| Year | Rs. |
|---|---|
| 1 | 50,000 |
| 2 | 75,000 |
| 3 | 1,25,000 |
| 4 | 1,30,000 |
| 5 | 80,000 |

Calculate the Average Rate of Return.

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**3. Answer any one of the following:** **10**

(a) (i) Calculate the pay-back period for a project which requires a cash outlay of Rs.40,000 but the same generates a cash inflow of Rs. 16,000; Rs. 12,000; Rs. 10,000 and Rs. 6,000.

(ii) From the following information, calculate N.P.V of the project:

| End of the Year | Rs. |
|---|---|
| 1 | 20,000 |
| 2 | 15,000 |
| 3 | 25,000 |
| 4 | 10,000 |

Assume discount factor at 10%

The present value of Re.1 to be received at the end of each year, at 10% is given as below:

| Year | 1 | 2 | 3 | 4 |
|---|---|---|---|---|
| P.V. | 0.909 | 0.826 | 0.751 | 0.683 |

(b) Prepare an estimate of working capital requirements from the following information of a trading concern:

| | | |
|---|---|---|
| (i) | Projected Annual sales | 1,00,000 units |
| (ii) | Selling Price | Rs.10 per unit |
| (iii) | Percentage of Net Profit on Sales | 25% |
| (iv) | Average Credit period allowed to Customers | 10 weeks |
| (v) | Average Credit period allowed by Suppliers | 5 weeks |
| (vi) | Average Stock Holding in terms of Sales Requirements | 10 weeks |
| (vii) | Allow 10% for Contingencies | |

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# MBA
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*(The figures in the margin indicate full marks for the questions)*

**Duration: 20 minutes** **Marks – 20**

**(PART A- Objective)**

**Time: 20 mins** **Total Marks: 20**

**Choose the correct answer:**

(i) Wealth maximization objective stands for:
(a) maximizing earnings per share
(b) maximizing value of debt instruments
(c) maximizing market value of equity shares
(d) none of these

(ii) Key financial functions of a firm include the following except:
(a) investment decision
(b) make or buy decision
(c) dividend decision
(d) financing decision

(iii) Liquidity ratios are used
(a) to assess the financial position of the firm at a point of time
(b) to evaluate the performance of the firm over a period of time
(c) to judge a firm's ability to meet short term obligations
(d) to assess the present and expected earnings of the firm

(iv) The current ratio of a firm is 5:3. Its net working capital is Rs.20, 000. The value of its current assets will be
(a) Rs.30, 000
(b) Rs.50, 000
(c) Rs.20, 000
(d) Rs.60, 000

(v) A Funds Flow Statement can not be used for:
(a) Assessment of working capital position
(b) Ascertaining the amount of employees' cost
(c) Planning a dividend policy
(d) Determining sources to be used for acquiring fixed assets or investment

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(vi) While preparing funds flow statement an increase in working capital is regarded as
(a) application of funds
(b) Source of funds
(c) neither application nor source
(d) both application as well as source

(vii) Solvency can not be measured by:
(a) Debt/Total assets ratio
(b) Debt service coverage ratio
(c) Interest coverage ratio
(d) P/V ratio

(viii) Cash flows from financing activities include the following except:
(a) Collection of loans granted to the other companies
(b) Issue of share capital
(c) Redemption of debenture
(d) Payment of interest and dividends

(ix) The main reasons for time preference for money include:
(a) Reinvestment opportunities
(b) Uncertainty
(c) Inflation
(d) All of these

(x) Time value of money facilitates comparison of cash flows occurring at different time periods by
(a) compounding all cash flows to a common point time
(b) discounting all cash flows to a common point of time
(c) using either (a) or (b)
(d) neither (a) or (b)

(xi) Discounted cash flow techniques involves
(a) Net present value
(b) Payback method
(c) Accounting Rate of Return
(d) none of these

(xii) The Average Rate of Return (ARR) methods of capital budgeting is unsatisfactory because
(a) It does not helps in determining the feasibility of an investment
(b) It ignores the time value of money
(c) It is based on accounting profits
(d) none of these

(xiii) The decision rule under Net Present Value method is
(a) NPV>zero = accept
(b) NPV<zero = reject
(c) NPV>1 = accept
(d) NPV<1 = reject

(xiv) The cost of capital can be
(a) explicit
(b) implicit
(c) both (a) & (b)
(d) none of these

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(xv) Which among these is not a specific cost?

(a) cost of debt

(b) cost of retained earnings

(c) cost of an asset

(d) none of these

(xvi) Which among the following capital structure theories say that, "firm can increase its value by increasing its proportion of debt in the capital structure?

(a) Net Income Approach

(b) Traditional Approach

(c) Net Operating Income Approach

(d) none of these

(xvii) According to Net Operating Income Approach the capital structure decision of the firm is

(a) relevant

(b) irrelevant

(c) neutral

(d) sometimes relevant otherwise non-relevant

(xviii)The minimum amount of current assets needed to conduct a business even during the dullest season of that year is known as

(a) Gross working capital

(b) Net working capital

(c) Fixed working capital

(d) Variable working capital

(xix) The size or level of receivables is not influenced by:

(a) Level of sales

(b) Collection of policy

(c) Number of employees in the credit and collection department

(d) Credit terms

(xx) Cash discount to customers is allowed to:

(a) Speed up sales

(b) Speed up collection

(c) Maximize level of average debtors

(d) Minimize bad debts

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