



RF-4293

M. B. A. (Sem. II) (FT & Eve) Examination

April / May – 2010

Financial Management

Time : 3 Hours]

[Total Marks : 100

Instructions :

(1)

नीचे दृष्टावेक निशानीवाणी विगतो उत्तरवही पर अवश्य कभवी. Fillup strictly the details of signs on your answer book.	Seat No. :
Name of the Examination :	<input type="text"/>
← M. B. A. (SEM. - 2)	<input type="text"/>
Name of the Subject :	<input type="text"/>
← FINANCIAL MANAGEMENT	<input type="text"/>
← Subject Code No. : <input type="text" value="4"/> <input type="text" value="2"/> <input type="text" value="9"/> <input type="text" value="3"/>	<input type="text"/>
← Section No. (1, 2,.....) : <input type="text" value="NIL"/>	
	Student's Signature

- (2) Maximum marks of each question are indicated at the right hand side of the question.
- (3) Question No. 1 is compulsory.
- (4) Attempt any 4 from question 2,3,4,5,6,7,8.
- (5) Show working as part of your answer.
- (6) Use of non programmable calculator is permitted.
- (7) PVF, PVIFA, CVF and CVIFA tables will be provided on demand.

- 1 (a) List and explain the important finance functions. 8
What is the role of a finance manager in a company?
- (b) If you deposit Re. 1 in a savings account at the beginning of each year for 4 years to earn 6% interest, how much will the compound value be at the end of 4 years? If you receive an annuity of Re. 1 each year, the interest being 10%, what will be the present value of this annuity if each payment is made in the beginning of the year. 10
- (c) The government is proposing to sell a 5 year bond of Rs. 1000 at 8% rate of interest per annum. The bond amount will be amortized equally over its life. If an investor has a minimum required rate of 7%, what is the present value of the bond for him? 10

- 2 The following figures have been taken from the current balance sheet of Delaware & Co. 18

Capital	Rs. 8,00,000
Share Premium	Rs. 2,00,000
reserves	Rs. 6,00,000
Shareholders' funds	Rs. 16,00,000
12% Irredeemable debentures	Rs. 4,00,000

An annual ordinary dividend of Rs. 2 per share has just been paid. In the past, ordinary dividends have grown at a rate of 10% per annum and this rate of growth is expected to continue. Annual interest has recently been paid on the debentures. The ordinary shares are currently quoted at Rs. 27.5 and the debentures at 80 per cent. Ignore taxation. (Book value of each share Rs. 10 and each debenture Rs. 100).

You are required to estimate the weighted average cost of capital for the company based on market value weights.

- 3 XYZ Ltd. sells its products onw gross profit of 20% on sales. 18
The following information is extracted from its annual accounts for the current year ended March 31st.

(i) Sales at 3 months' credit	Rs. 40,00,000
(ii) Raw Material	Rs. 12,00,000
(iii) Wages paid-average time lag 15 days	Rs. 9,60,000
(iv) Manufacturing expenses paid one month in arrears	Rs. 12,00,000
(v) Administrative expenses paid one month in arrears	Rs. 4,80,000
(vi) Sales promotion expenses-payable half yearly in advance	Rs. 2,00,000

The company enjoys one month's credit from the suppliers of raw material and maintains 2 month's stock of raw materials and 1.5 months' stock of finished goods. Ignore work in progress. The cash balance is maintained at Rs. 100,000 as a precautionary measure. Assuming a 10% margin, find out the working capital requirements of XYZ Ltd.

- 4 (a) From the following, prepare the income statement of two companies A Ltd. and B Ltd. Briefly comment on each company's performance. 10

Company	A	B
Financial leverage	4:1	2:1
Interest (Rs)	300	1000
Operating leverage	5:1	3:1
Variable cost as percentage of sales	75	50
Tax Rate	35%	35%

- (b) Explain how the NPV method of project selection is better than the IRR method in case of non-conventional projects. 8
- 5 ABC Ltd. buys and uses a component for production at Rs. 10 per unit. The annual requirement is 2000 units. Carrying cost of inventory is 10% per annum, and ordering cost is Rs. 40 per order. The purchase manager argues that as the ordering cost is high, it is advantageous to place a single order for the entire annual requirement. He also says that if the order is 2000 units at a time, there is a 3% discount from the supplier. Evaluate this proposal and make your recommendation. 18
- 6 Explain the Net Income Approach and Net Operating Income approach in capital structure theories and state the difference between the two. 18
- 7 Explain in detail the Indian Financial System. Also give a brief overview of Money Market in India and explain the role of RBI. 18
- 8 Write short notes on any two : 18
- (a) Factoring
 - (b) Difference between owners' funds and borrowed funds
 - (c) ABC Analysis for inventory control
 - (d) Non-Discounted techniques of project selection.