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# A-6002

## M. B. A./M. B. A. (MM) (Second Semester) Examination, 2016

## FINANCIAL MANAGEMENT & CONTROL

*Paper : MS/MM/122*

*Time Allowed : Three hours*

*Maximum Marks : 70*

*Minimum Pass Marks : 28*

**Note :** *Attempt all questions. All questions carry equal marks. Working notes should be a part of your answers. If attempting numerical question/case studies.*

### Unit-I

1. "Investment, financing and dividend decisions are all inter-related". Comments.





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Or

What are the main sources of finance available to industries for meeting short term as well as long terms financial requirements? Discuss

### Unit-II

2. The following are the summarised balance sheet of Agrima Ltd. on 31st Dec. 2014 and 31st Dec. 2015 :

| Assets | 2014 (₹) | 2015 (₹) |
|---|---|---|
| Cash and bank | 90,000 | 90,000 |
| Debtors | 67,000 | 43,000 |
| Temporary Investment | 1,10,000 | 74,000 |
| Prepared Expenses | 1,000 | 2,000 |
| Stock in trade | 82,000 | 1,06,000 |
| Land and Building | 1,50,000 | 1,50,000 |
| Machinery | 52,000 | 70,000 |
| Total = | 5,52,000 | 5,35,000 |
| Liabilities and Capital : | | |
| Sundry Creditors | 1,03,000 | 96,000 |
| Outstanding Expenses | 13,000 | 12,000 |

| | | |
|---|---|---|
| 8% Debentures | 90,000 | 70,000 |
| Depreciation fund | 40,000 | 44,000 |
| Reserve | 60,000 | 60,000 |
| Profit and Loss Account | 16,000 | 23,000 |
| Capital | 2,30,000 | 2,30,000 |
| Total = | 5,52,000 | 5,35,000 |

The following information concerning the transactions is available :

(a) 10% Dividend was paid in cash.

(b) New machinery for ₹ 30,000 was purchased but old machinery costing ₹ 12,000 was sold for ₹ 4,000, accumulated depreciation was ₹ 6,000.

(c) ₹ 20,000, 8% Debenture were redeemed by purchase from open market @ 96 for a debentures of ₹ 100.

(d) ₹ 36,000 Investments were sold at book value.

You are required to prepare a fund flow statement.

**Or**

What is the purpose of preparing a cash flow statement? How is it prepared? Explain and illustrate.









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## Unit-III

3. What is meant by Inventory Management? Why is it essential to a business concern.

**Or**

From the following information you are required to estimate the networking capital :

| | Cost per unit (₹) |
|---|---|
| Raw Materials | = 400 |
| Direct labours | = 150 |
| Overheads | = 300 |
| Total Cost | = 850 |

Additional Information :

| | |
|---|---|
| Selling price | 1,000 per unit |
| Output | 52,000 units per annum |
| Raw material in stock | Average 4 weeks |
| Work-in-process : (assume 50% completion stage with full material consumption) | = Average 2 weeks |
| Finished goods in stock | = average 4 weeks |



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| | |
|---|---|
| Credit allowed by suppliers | = average 4 weeks |
| Credit allowed to debtors | = average 8 weeks |
| Cash at bank is expected to be | 50,000 |

Assume that production is sustained at on even pace during the year. All sales are on credit basis. State any other assumption that you might have made while computing.

## Unit-IV

4. What is meant by Cost of Capital? What are the components of Cost of Capital? How is the cost of new equity capital issue determined?

**Or**

Neel Company's Capital structure consists of the following :

| | |
|---|---|
| Equity share of ₹ 100 each | ₹ 20 lakhs |
| Retained Earnings | ₹ 10 lakhs |
| 9% preference shares | ₹ 12 lakhs |
| 7% Debentures | ₹ 8 lakhs |
| Total | ₹ 50 lakhs |













The compnay earns 12% on it capital the income tax rate is 50%. The company requires a sum of ₹ 25 lakhs to finance its expansion programme for which the following alternatives are available to it :

(a) Issue of 20,000 equity shares @ premium of ₹ 25 per share

(b) issue of 10% preference shares.

(c) Issue 8% debentures it is estimated that the P/E ratios in the case of equity, preference and debentures, financing would be 21·4, 17 and 15·7 respectivity.

Which of the three financing alternatives would you recommend and why?

## Unit-V

5. "Capital budgeting is long-term planning for making and financing proposed capital outlays". Explain what are the limitations of Capital budgeting.

**Or**

Using the information given below, compute the

(a) Pay Back Period

(b) Average Rate of Return

(c) Net Present Value Method

Initial Outlay = ₹ 80,000, Estimated life 5 year

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Profit after tax (₹) | 6,000 | 14,000 | 24,000 | 16,000 | Nil |

Depreciation has been calculated under straight line method. The cost of capital may be taken at 20% p.a. and P. V. of Re 1 @ 20% is given below :

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| P. V. Factor | 0·83 | 0·69 | 0·59 | 0·48 | 0·40 |