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Z-6022

M. B. A./M. B. A. (MM) (Second Semester) Examination, Oct.-Nov., 2015

(New/Old Course)

FINANCIAL MANAGEMENT & CONTROL

Paper : MS/MM/MR/122

Time Allowed : Three hours

Maximum Marks : 70 New Course
85 Old Course

Note : *Attempt all questions. One question from each unit is compulsory. All questions carry equal marks. Working notes should be a part of your answers. While attempting numerical/cases/questions.*

Unit-I

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

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Or

(a) Distinguish between the concepts of Profit Maximization and Wealth maximization. 7/8½

(b) What are long-term and short term sources of finance? 7/8½

Unit-II

2. What is purpose of preparing a cash flow statement? How is it prepared, also distinguish between fund flow and cash flow?

Or

The following are the Balance of the Balance Sheet of Agrima Ltd. as at 31st December, 2013 and 31 December, 2014 :

Assets	2013	2014
Cash and Bank	90,000	90,000
Sundry Debtors	67,000	43,000
Temporary Investment	1,10,000	74,000
Prepaid 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

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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 for Contingencies	60,000	60,000
Profit 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) ₹ 36,000 Investment were sold at book value.

(d) ₹ 20,000, 8% Debenture were redeemed by Purchase from open market @ 96% for a Debentures of ₹ 100.

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You are required to prepare a schedule of changes in unity capital and statement showing sources and application of funds.

Unit-III

3. A proforma cost sheet of a Dekshant Company Ltd. provides the following particulars :

Cost of element :

Materials	40%
Direct Labour	20%
Overheads	20%

the following further particular and available :

(a) It is proposed to maintain a level of activity of ₹ 2,00,000 units

(b) Selling price is ₹ 12/- per units

(c) Raw materials are expected to remain is stores for an average period of one month

(d) Credit allowed to debtors is two months.

(e) Materials will be in process on averages half a month and its assumed to be consisting of 100% raw material, wages and overheads.

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(f) Finished goods are required to be is stock for an average period of one month.

(g) Credit allowed by suppliers is one month.

You may assumed that sales and production follow a consistent pattern.

You are required to prepare a statement of working capital requirements. Forcast Profit and Loss Account and Balance Sheet of the company assuming that.

Or

(a) Discuss in detail the objectives of Inventory Management. 10/12

(b) What is A-B-C analysis? 4/5

Unit-IV

4. Anskika-Company's capital structure consists of the following :

7% Debentures	₹ 8 Lakhs
9% Preference shares	₹ 12 Lakhs
Retained Earnings	₹ 10 Lakhs
Equity share of ₹ 100 each	₹ 20 Lakhs
Total	₹ 50 Lakhs

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

(i) Issue of ₹ 20,000 equity shares at a premium of ₹ 25 per share.

(ii) Issue of 10% preference shares.

(iii) Issue of 8% debentures.

It is estimated that the P/E ratio in the cases of equity, preference and debenture financing would be–21·4, 17 and 15·7 respectively. Which of the three financing alternative would you recommend and why?

Or

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?

Unit-V

5. Using the information given below, compute :

(a) Traditional Pay-Back Method and

(b) Discounted Pay-back method

(c) Average Rate of Return Method :

Initial outlay ₹ 80,000

Estimated Life 5 years

Profit after tax :

	₹
End of the year 1st	₹ 6,000
End of the year 2nd	14,000
End of the year 3rd	24,000
End of the year 4th	16,000
End of the year 5th	Nil

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

Year	1	2	3	4	5
P. V. Factor	0·83	0·69	0·58	0·48	0·40

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