Printed Pages – 11

Y-6567

M. B. A./M. B. A. (MM) / M. B. A. (RM)
(Second Semester) Examination, Sept. 2014

(New/Old Course)

FINANCIAL MANAGEMENT & CONTROL

Paper : MS/MM/MR/122

Time Allowed : Three hours

Maximum Marks : *for Regular 70 New Course*
for Ex. & ATKT 85 Old Course

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

Why is wealth maximization as an objective of financial management considered more in the interest of an organization than profit maximization? Discuss. 14

Or

(a) What are the sources of short term financing? Discuss in detail. 4

(b) Explain the characteristics, advantages and disadvantages of various sources of long term financing. 10

Unit-II

2. (a) What is cash flow statement which objectives are fullfilled by preparing cash flow statement?

(b) From the following comperative balance sheet and additional information prepare the funds flow statement of Ram Ltd. :

Balance Sheet

Liabilities	2010	2011	Assets	2010	2011
Share capital	24,000	36,000			
Share Premium	2,400	3,600	Land and Building	16,620	13,960
General Reserve	1,800	2,700	Machinery	10,680	35,390
P&L A/c	5,850	6,240	Furniture	7,200	450
Debentures	—	7,800	Stores	6,630	7,800
Provision for Taxation	2,940	3,270	[illegible]	10,950	11,730
Creditors	10,050	10,920	Bank	1,440	1,200
Total	47,040	70,530	Total	47,040	70,530

Additional Information :

Depreciation written off during the year :

(i) On Furniture ₹ 120

(ii) On Machinery ₹ 3,840

Or

(a) Distinguish between cash from operations and funds from operations.

(b) From the following the Balance Sheet of December, 2010 and 2011. Prepare cash flow statement :

Balance Sheet

Liabilities	2010	2011	Assets	2010	2011
Provision for Doubtful Debts	200	300	Cash	4,300	5,800
Accumulated Depreciation :			Prepaid Exp.	200	200
Machinery	300	750	Debtors	8,000	9,000
Building	1,200	1,800	Stock	3,200	4,000
Creditors	3,300	4,000	Investments (Long Term)	5,000	3,000
Outstanding Expenses	350	450	Machinery (at cost)	2,500	4,000
Debentures	4,000	3,500	Building (at cost)	7,500	9,000
Equity Share Capital	20,000	20,000	Land	1,000	1,000
P&L A/c	2,350	5,200			
Total	31,700	36,000		31,700	36,000

http://www.rdvvonline.com

http://www.rdvvonline.com

http://www.rdvvonline.com

http://www.rdvvonline.com

Additional informations :

(i) Dividend paid during the year 2011 was ₹ 2,650.

(ii) Machinery costing ₹ 500 on which ₹ 100 depreciation has been accumlated was sold for ₹ 600 in 2011.

(iii) Investment costing ₹ 2,000 were sold for ₹ 2,500 in 2011.

Unit-III

3. (a) What are the various factors affecting working capital management?

(b) The management of Fusion-AKS Ltd. given the following details for assessing their working capital to produce 2,800 units in a year for which they have contacted a financial institution to finance them. The records of the company provides the following cost details :

http://www.rdvvonline.com

http://www.rdvvonline.com

	(Rs.)
Raw materials	₹ 200·00 Per Unit
Direct labour cost	₹ 50·00 Per Unit
Overheads cost :	
(This includes Rs. 10 per	
unit depreciation)	₹ 150·00 Per Unit
Total cost of production	₹ 400·00 Per Unit
profit	₹ 100·00 Per Unit
Selling price of the product	₹ 500·00 Per Unit

The following additional information and provided by the Fusion-AKS Ltd. :

(i) Raw materials are held in stock on an average for one month.

(ii) Work in progress (assume 50% completion stage) will approximate to half a months production.

(iii) Finished goods remain in warehouse on an average for a month.

(iv) Suppliers of materials extend a month's credit and debtors are provided two months credit.

(v) Cash sales are 25% of total sales.

http://www.rdvvonline.com

http://www.rdvvonline.com

(vi) Time Leg in the payment of wages and overhead is one month.

(vii) Minimum desired cash balance is ₹ 10,000.

From the facts given above you are required to prepare a statement showing working capital needs of Fusion-AKS Ltd.

Or

(a) Discuss the role of effective inventory management in working capital related issues.

(b) While preparing a project report on behalf of a client, an investment advisor has collected the following facts. Estimate the net working capital required for that project. The advisor has to add 20% to the computed figure to allow contingencies :

Estimated cost per unit of production :

(i)	Raw Materials	₹ 800
(ii)	Direct Labour	₹ 300
(iii)	Overhead (Exclusive of Depreciation @ ₹ 10 per unit)	₹ 600
	Total cash cost	₹ 1,700

http://www.rdvvonline.com

http://www.rdvvonline.com

The following additional informations are available :

(i) level of activity, 20,80,000 units of production per annum.

(ii) Raw materials in stcok is available for four weeks.

(iii) Selling price per unit 1,000 per unit.

(iv) The average of work in progress (assume 50% completion stage in respect of conversion cost and 100% completion in respect of materials) is two weeks

(v) Average time keeping finished goods is four weeks.

(vi) Credit allowed to debtors is for average eight weeks.

(vii) Leg in payment of wages is 1·5 weeks on an average.

(viii) Expected cash at bank is ₹ 5,00,000. The advisor may assume that production is carried on evenly, throught the year (52 weeks) and wages and overheads accrue similarly. All sales are made on credit basis only.

Unit-IV

4. (a) What do you mean by Capital Structure of a Coropration? 4

(b) Following is the capital structure of Rupali Ltd. on 31st December, 2011 : 10

	₹
10% Bank Loans	3,00,000
9% Debenture	11,00,000
11% Preference Shares (of ₹ 100 each)	12,00,000
Equity share (of ₹ 100 each)	20,00,000
Reserve Funds	14,00,000
	60,00,000

At present, the earnings of the Company before interest and tax are ₹ 9,00,000. The existing rate of return is expected to be maintained in future also. The company requires 6,00,000 for expansion programme following options are available to manage the funds :

(i) Issue of equity shares at a premium of ₹ 20 each.

(ii) Issue of 11% preference shares at par.

(iii) Issue of 2,500 equity shares at a premium of ₹ 20 each and 11% preference shares at par for the remaining amount.

(iv) Issue of 10% debenture at par. Assuming tax rate as 40% which option is the best for company.

Or

What do you understand by cost of capital? What is the utility of computing weighted average cost of capital? Calculate weighted average cost of capital on the basis of assumed figures.

Unit-V

5. (a) Explain by an example the concept of short term liquidity risk and long term credit risk.

(b) Barbosana Ltd. is seeking advise from you on the issue of purchase of machine that they should buy for increasing its productivity. The following three models are available for consideration :

Model 1	Model 2	Model 3
PASNA	ZOMANA	QUSIRA

Details about models are given below :

	1 PASNA (₹)	2 ZOMANA (₹)	3 QUSIRA (₹)
Cost of Machine	1,35,000	1,25,000	1,18,000
Estimated savings in scrap	11,600	13,000	11,000
Wages per operative	1,000	1,200	1,000
Cost of Indirect Materials	—	1,600	—
Expected Savings in indirect materials	400	—	1,000
Additional Cost of Supervision	—	3,200	—
Operatives not required	11	20	09
Estimated life of machine	10 years	6 years	5 years

You are required to advise the management of the company that which machine should be purchased and why you should apply pay back period and post pay back period analysis of capital budgeting and suggest the management on the basis of both analysis.

Or

(a) In the light of long term investment decision, discuss the importance and process of Decision free method.

(b) How risk in long term investment analysis is Reported under Financial Measurement Analysis and Reporting Approach (FMAR)? Discuss.