

P.C.E.T.'S
S.B. PATIL INSTITUTE OF MANAGEMENT
End Term Examination (July 2023)
M.B.A. SEMESTER – II

202 – Financial Management - GC-08


Max. Time: 2 ½ Hours

Max. Marks: 50

Instructions to the Candidates:



1. All questions are compulsory.
2. Each question carries equal marks.
3. Use of simple calculator is allowed.

Q. No.	Question	CO No.	Marks
1	<p>Answer any Five.</p> <ol style="list-style-type: none"> 1. Which of the following is complementary to financial management? <ol style="list-style-type: none"> a. Cost Accounting b. Management Accounting c. Financial Accounting d. Forensic Accounting 2. Internal Rate of Return of a project is that rate where _____. <ol style="list-style-type: none"> a. NPV = 0 b. NPV < 1 c. NPV > 1 d. NPV = 1 3. What is the formula to compute Interest Coverage Ratio? 4. In case the firm is all equity financed, WACC is equal to _____. <ol style="list-style-type: none"> a. Cost of debt b. Cost of equity c. Neither (a) nor (b) d. Cost of equity plus cost of debt 5. Write the formula to compute Operating Leverage and Financial Leverage. 6. Gross working capital = _____ <ol style="list-style-type: none"> a. Current Liabilities b. Current Assets – Current Liabilities c. Current Liabilities – Current Assets d. Current Assets 7. What is Business Finance? 8. Which financial statements should be prepared by listed companies in India? 	1	10
2	<p>Answer any Two</p> <ol style="list-style-type: none"> 1. “Wealth maximisation is better operative criterion than profit maximisation”. Explain. 	2	10


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	<p>2. What is Common Size Statement? Explain its process and advantages.</p> <p>3. “An optimal combination of decisions relating to investment, financing and dividends will maximise the value of the firm to its shareholders”. Explain.</p>																																							
3	<p>A] PQR Ltd has the following capital structure on December 31, 2022:</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Particulars</th> <th>Amount (Rs)</th> </tr> </thead> <tbody> <tr> <td>Equity share capital (2,00,000 shares of Rs.10 each)</td> <td>20,00,000</td> </tr> <tr> <td>Reserves and surplus</td> <td>20,00,000</td> </tr> <tr> <td>12% Preference shares</td> <td>10,00,000</td> </tr> <tr> <td>9% Debentures</td> <td>30,00,000</td> </tr> </tbody> </table> <p>The market price of equity share is Rs.30. It is expected that the company will pay next year a dividend of Rs.3 per share, which will grow at 7% forever. Assume 40% income tax rate. You are required to compute WACC using book value weight and market value weight.</p> <p style="text-align: center;">OR</p> <p>B] From the following data compute the duration of operating cycle for the year ending 31st March 2023.</p> <table border="1" style="margin-left: 40px;"> <thead> <tr> <th>Particulars</th> <th>Opening Balance</th> <th>Closing Balance</th> </tr> </thead> <tbody> <tr> <td>Raw materials</td> <td>20,000</td> <td>27,000</td> </tr> <tr> <td>WIP</td> <td>14,000</td> <td>18,000</td> </tr> <tr> <td>FG</td> <td>21,000</td> <td>24,000</td> </tr> <tr> <td>Purchases</td> <td>96,000</td> <td>1,35,000</td> </tr> <tr> <td>Cost of Goods Sold</td> <td>1,40,000</td> <td>1,80,000</td> </tr> <tr> <td>Sales</td> <td>1,60,000</td> <td>2,00,000</td> </tr> <tr> <td>Debtors</td> <td>32,000</td> <td>50,000</td> </tr> <tr> <td>Creditors</td> <td>16,000</td> <td>18,000</td> </tr> </tbody> </table> <p>Assume 360 days per year for computational purpose</p> <p>Also compute number of operating cycles in a year.</p>	Particulars	Amount (Rs)	Equity share capital (2,00,000 shares of Rs.10 each)	20,00,000	Reserves and surplus	20,00,000	12% Preference shares	10,00,000	9% Debentures	30,00,000	Particulars	Opening Balance	Closing Balance	Raw materials	20,000	27,000	WIP	14,000	18,000	FG	21,000	24,000	Purchases	96,000	1,35,000	Cost of Goods Sold	1,40,000	1,80,000	Sales	1,60,000	2,00,000	Debtors	32,000	50,000	Creditors	16,000	18,000	3	10
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4	<p>A] QPR ltd. having a equity share capital of Rs. 1,00,000 divided into shares of Rs. 10 each and 5% Debenture of Rs. 50,000. It has a major expansion program requiring an investment of another Rs. 60,000. The management is considering the following alternatives for raising this amount.</p> <p>A. Issue of 6,000 Equity Shares of Rs. 10 each.</p> <p>B. Issue of 5,000 Debentures @ 12% of Rs. 10 each and remaining with Equity Shares of Rs. 10 each.</p> <p>C. Issue of 5,000 Preference Shares @ 12% of Rs. 10 each and remaining with Equity Shares of Rs. 10 each.</p> <p>The company’s present Earnings Before Interest and Tax (EBIT) are Rs. 70,000 per annum subject to tax @ 50%. You are required to examine the effect of the above</p>	4	10																																					


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financial plan on the earnings per share and suggest the alternative to raise required funds.

OR

B] The following data are extracted from the published accounts of two companies in an industry.

Particulars	ABC Ltd. (Rs.)	XYZ Ltd. (Rs.)
Sales	32,00,000	30,00,000
Net profit after tax	1,23,000	1,58,000
Equity capital (₹ 10 per share fully paid)	10,00,000	8,00,000
General reserve	2,32,000	6,42,000
Long term debt	8,00,000	5,60,000
Creditors	3,82,000	5,49,000
Bank credit short term	60,000	2,00,000
Fixed assets	15,99,000	15,90,000
Inventories	3,31,000	8,09,000
Other current assets	5,44,000	4,52,000

Prepare a statement of comparative ratios showing liquidity, profitability, activity and comment on financial position of two companies

5 A] A factory produces 84,000 units during the year and sells them at Rs.50 per unit. Cost structure of a product is as under -

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Element of cost	
Raw material	55%
Labour	18%
Overheads	17%
Total cost	90%
Profit	10%
Selling price	100%

1. RM equivalent to 1 ½ month supply is stored in stores.
2. The production process takes 15 days.
3. FG equal to 1 month production.
4. Debtors get 1 month credit.
5. Creditors allow 2 months credit.
6. Time lag in payment of wages and overheads 1 month
7. Cash and bank balance is to be maintained at 15% of working capital.
8. 25% of purchases for cash.

Draw a forecast of working capital requirement using cash cost approach.


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OR

B] The cash flow from two mutually exclusive projects X and Y are as under

Particulars	Project X (Rs.)	Project Y (Rs.)
0 year	Rs.-22000	Rs.-27000
1-7 years	Rs.6000	Rs.7000
Project life	7 years	7 years

1. Evaluate both the projects on the basis of NPV (discount rate 19%) and IRR method and advise the management to select most appropriate project.



A handwritten signature in blue ink, appearing to be "S. B. Patil", written over a horizontal line.

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