

December 2009

**Master of Business Administration (MBA) Examination
II Semester**

Financial Management

Time : 3 Hours]

[Max. Marks : 90

Note : Answer any two questions from Section A and any three questions from Section B. All questions carry 18 marks.

Section A

1. Write a note on importance of Fund Flow Statement.
2. Describe with illustrations any three of the following :
 - (a) Current Ratio
 - (b) Inventory Turnover Ratio
 - (c) Operating Ratio
 - (d) Interest Coverage Ratio
 - (e) Debt to Equity Ratio.
3. Answer the following questions :
 - (a) Distinguish between Budgeting and Forecasting.
 - (b) What do you understand by Flexible Budgeting ?
 - (c) Write a short note on Performance Budgeting.
4. Your company's share is quoted in the market at Rs. 20 currently. The company pays a dividend of Re. 1 per share and the investor's market expects a growth rate of 5 per cent per year.
 - (a) Compute the company's equity cost of capital;
 - (b) If the anticipated growth rate is 6% p. a., calculate the indicated market price per share;
 - (c) If the company's cost of capital is 8% and the anticipated growth rate is 5% p. a., calculate the indicated market price if the dividend of Re. 1 per share is to be maintained.

Section B

5. From the following Balance Sheet of Deepika Ltd., compute :
 - (a) Equity Ratio (Proprietary Ratio)
 - (b) Debt-Equity Ratio
 - (c) Funded Debt to Total Capitalisation
 - (d) Fixed Assets to Net Worth Ratio
 - (e) Solvency Ratio
 - (f) Current Asset to Proprietor's Fund Ratio
 - (g) Fixed Assets Ratio.

Deepika Ltd.

Liabilities	Rs.	Assets	Rs.
Equity Share Capital	3,00,000	Goodwill	90,000
9% Preference Share Capital	1,50,000	Land and Building	1,00,000
Reserve Fund	50,000	Plant and Machinery	2,50,000
Profit and Loss Account	20,000	Equipments	60,000
Share Premium	10,000	Furniture and Fittings	80,000
8% Debentures	2,00,000	Sundry Debtors	92,000
6% Mortgage Loan	60,000	Less: Provision	<u>2,000</u>
Sundry Creditors	80,000		90,000
Income Tax Provision	20,000	Bills Receivables	1,00,000
Depreciation Fund	50,000	Stock in Hand	1,20,000
		Cash Balance	45,500
		Prepaid Insurance	1,500
		Preliminary Expenses	2,000
		Discount on Issue of Debentures	1,000
Total	<u>9,40,000</u>	Total	<u>9,40,000</u>

6. The following is the capital structure of Saras Ltd. as on 31-12-2005 :

	Rs.
Equity Shares : 20,000 shares of Rs. 100 each	20,00,000
10% Preference Shares of Rs. 100 each	8,00,000
12% Debentures	<u>12,00,000</u>
Total	<u>40,00,000</u>

The market price of the company's share is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared after 1 year. The dividend growth rate is 6%.

- If the company is in the 50% tax bracket, compute the weighted average cost of capital.
- Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs. 20 lakhs bearing 14% rate of interest, what will be the company's revised weighted average cost of capital ? This financing decision is expected to increase dividend from Rs. 10 to Rs. 12 per share. However, the market price of equity share is expected to decline from Rs. 110 to 105 per share.

7. The Balance Sheet of ABC Ltd. is as following :

Liabilities	1-1-04 (Rs.)	31-12-04 (Rs.)	Assets	1-1-04 (Rs.)	31-12-04 (Rs.)
Equity Capital	1,00,000	1,00,000	Cash	10,000	7,200
General Reserve	1,00,000	1,00,000	Debtors	72,000	76,800
Profit and Loss Account	96,000	98,000	Stock	50,000	44,000
Current Liabilities	72,000	82,000	Land	40,000	60,000
Loan from Associate Company	-	40,000	Buildings	1,00,000	1,10,000
Loan from Bank	62,000	50,000	Machinery	1,60,000	1,72,000
Total	<u>4,30,000</u>	<u>4,70,000</u>	Total	<u>4,30,000</u>	<u>4,70,000</u>

During the year Rs. 52,000 was paid as dividends. The provision for depreciation against machinery as on 1-1-04 was Rs. 54,000 and on 31-12-04 Rs. 72,000. You are required to prepare the Cash Flow Statement.

8. A company has an investment opportunity costing Rs. 40,000 with the following expected net cash flow after taxes and before depreciation :

Year	Net Cash Flow
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Using 10% as the cost of capital, determine the following :

- Pay back period.
- Net present value at 10% discount factor.
- Profitability index at 10% discount factor.
- Internal rate of return with the help of 10% and 15% discount factor.

Note :

Year	Present Value of Re. 1 at 10% Discount Rate	Present Value of Re. 1 at 15% Discount Rate
1	0.909	0.870
2	0.826	0.756
3	0.751	0.658
4	0.683	0.572
5	0.621	0.497
6	0.564	0.432
7	0.513	0.376
8	0.467	0.327
9	0.424	0.284
10	0.386	0.247

9. From the following Balance Sheets of Alpha Ltd. on 31st Dec., 2001 and 2002, you are required to prepare Funds Flow Statement:

Liabilities	2001 Rs.	2002 Rs.	Assets	2001 Rs.	2002 Rs.
Share Capital	1,00,000	1,00,000	Goodwill	12,000	12,000
General Reserve	14,000	18,000	Building	40,000	36,000
P&LA/c	16,000	13,000	Plant	37,000	36,000
Creditors	8,000	5,400	Investments	10,000	11,000
Bills Payable	1,200	800	Stock	30,000	23,400
Provision for Taxation	16,000	18,000	Bills Receivables	2,000	3,200
Provision for Doubtful Debts	400	600	Debtors	18,000	19,000
			Preliminary Expenses	6,600	15,200
Total	<u>1,55,600</u>	<u>1,55,800</u>	Total	<u>1,55,600</u>	<u>1,55,800</u>

