

**August – September 2022**  
**M. B. A. (Financial Administration) Examination**

**II Semester**  
**FINANCIAL MANAGEMENT**

Time 3 Hours]

[Max. Marks 90

**Note :** Attempt any two questions from Section A. Each question in this section carries 12 marks. Answer any three questions from Section B. Each question in this section carries 22 marks.

**Section A**

1. Examine inter-relationship among the Investment, Financing and Dividend Decisions.
2. What are the advantages and disadvantages of debenture as an instrument of financing from the point of view of the company as well as investors ?
3. What do you mean by Appropriate Capital Structure ? Explain with reference to the Cash Flow Analysis.

**Section B**

4. BM Ltd. is considering two different investment proposals, A and B. The details are as under :

		<b>Proposal A</b>	<b>Proposal B</b>
		<b>Rs.</b>	<b>Rs.</b>
Investment Cost		9,500	20,000
Estimated Income :	Year 1	4,000	8,000
	Year 2	4,000	8,000
	Year 3	4,500	12,000

Suggest the most attractive proposal on the basis of the NPV method considering that the future incomes are discounted at 12%. Also find out the IRR of the two proposals.

5. Calculate the Operating Leverage and Financial Leverage under Situation A, B and C and Financial Plans I, II and III respectively from the following information relating to the operational and capital structure of XYZ Co. Also find out the combinations of operating and financial leverage which give the highest value :

Installed Capacity	1,200 units
Actual production and sales	800 units
Selling prices per unit	₹ 15
Variable cost per unit	₹ 10
Fixed cost :	
Situation A	₹ 1,000
Situation B	₹ 2,000
Situation C	₹ 3,000

<b>Capital Structure</b>		<b>Financial Plan</b>	
Equity	5,000	7,500	2,500
Debt	5,000	2,500	7,500
Cost of debt 12%			

**P. T. O.**

6. Avon Electrical Ltd. wishes to determine the weighted average cost of capital for evaluating capital budgeting projects. You have been supplied with the following information to calculate the value of  $K_0$  for the company :

**BALANCE SHEET as on March 31**

Liabilities	₹	Assets	₹
Current liabilities	9,00,000	Sundry assets	39,00,000
Debentures	9,00,000		
Preference shares	4,50,000		
Equity Shares	12,00,000		
Retained earnings	4,50,000		
	<b>39,00,000</b>		<b>39,00,000</b>

Anticipated external financing information :

- 20 years, 8% Debentures of ₹ 2,500 face value, redeemable at 5% premium, sold at par, 2% flotation costs.
  - 10% Redeemable Preference Shares : Sale price ₹ 100 per share, 2% flotation costs.
  - Equity shares : Sale price ₹ 115 per share; flotation costs would be ₹ 5 per share.
  - The corporate tax rate is 35% and expected equity dividend growth is 5% per year. The expected dividend at the end of the current financial year is ₹ 11 per share. Assume that the company is satisfied with its present capital structure and intends to maintain it.
7. The following information has been extracted from the records of a Company :

Product Cost Sheet	₹/Unit
Raw materials	45
Direct labour	20
Overheads	40
Total	105
Profit	15
Selling price	120

- Raw materials are in stock on an average of two months.
- The materials are in process on an average for 4 weeks. The degree of completion is 50%.
- Finished goods stock on an average is for one month. 2 1/2 3/5
- Time lag in payment of wages and overheads is  $1\frac{1}{2}$  weeks.
- Time lag in receipt of proceeds from debtors is 2 months.
- Credit allowed by suppliers is one month.
- 20% of the output is sold against cash.
- The company expects to keep a Cash balance of ₹ 2,00,000.
- Take 52 weeks per annum.

The Company is poised for a manufacture of 1,50,000 units in the year. You are required to prepare a statement showing the Working Capital requirements of the Company.