September 2014

Master of Business Administration (MBA) Examination
II Semester

Fundamentals of Financial Management

Time : 3 Hours] **[Max. Marks : 80**

Note : *Attempt any two questions from Section A. Each question in this section carries 16 marks. Attempt any three questions from Section B. Each question in this section carries 16 marks.*

Section A

1. What do you mean by Management of Finance ? What are the two aspects of financial management? Also discuss the key types of decisions in financial management.
2. What is Capital Budgeting? Why is it necessary? Discuss the characteristics and relative merits and demerits of the different methods of appraising capital investment proposals. Which methods would you prefer and why ?
3. (a) What do you understand by fixed and Flexible Budget ? Explain in detail the techniques of preparing a flexible budget

   (b) Explain the meaning of term 'Dividend Policy' and different types of dividend policies. Also examine the factors determining the dividend policy of a company.

Section B

4. (a) DLF Industries Ltd. has issued capital of Rs. 40 lakhs divided into 40,000 equity shares of Rs. 100 each. The management has an expansion plan and required investment of another Rs. 20 lakhs. Funds can be raised through any of the two alternatives as given below :

   (i) Rs. 10 lakhs through equity shares and Rs. 10 lakhs through 8% debentures.

   (ii) Rs. 5 lakhs through equity shares (@ Rs. 100 each) and Rs. 15 lakhs 10% debentures.

   The expected earnings before interest and tax (EBIT) is Rs. 10 lakhs. Assuming a corporate tax of 50%, determine the earning per share (EPS) in each of the above alternatives. Suggest which alternative is best suited to the company and why ?

(b) The comparative balance sheet of ABCL Corporation as on 31-03-2013 and 31-03-2014 are as given below :

Liabilities	31-03-2013	31-03-2014	Assets	31-03-2013	31-03-2014
Share Capital	2,00,000	2,50,000	Land & Building	2,00,000	2,40,000
General Reserve	40,000	70,000	Machinery	1,80,000	1,30,000
P/L A/c	32,000	39,000	Stock	1,00,000	1,26,000
BOD	1,60,000	40,000	Debtors	80,000	64,000
Creditors	1,50,000	1,30,000	Cash	52,000	9,000
Prov. for Taxation	30,000	40,000			

Additional Information :

(i) During year 2014 dividend paid Rs. 42,000.

(ii) Assets of Rex Co. were purchased for a consideration of Rs. 50,000 payable in issue of shares. These were Land and Building of Rs. 25,000 and Stock Rs. 25,000.

(iii) Dep. written off on Machinery Rs. 12,000 and on Land and Building is Rs. 22,500.

(iv) Income tax paid during the year was Rs. 35,000.

You are required to prepare a Cash Flow Statement from the above maintained details.

5. A fast growing foreign company wants to expand its total assets by 50 per cent by the end of the current year. Given below are the company's capital structure which it considers to be optimal. There are no short-term debts. New debentures would be sold at 11 per cent coupon rate and will be sold at par. Preference shares will have a 12 per cent rate and will also be sold at par. Equity shares currently selling at Rs. 100 can be sold to net the company Rs. 95. The shareholders' required rate of return is to be 17 per cent Consisting of a dividend yield of 10 per cent and an expected growth rate of 7 per cent. Retained earnings for the year are estimated to be Rs. 50,000 (ignore depreciation) The corporate tax is 35 per cent.

8% Debentures	Rs. 4,00,000
9% Preference Shares	Rs. 1,00,000
Equity Shares	Rs. 5,00,000
Total	Rs. 10,00,000

You are required to calculate the following values :

(a) Assuming all asset expansion (gross expenditure for fixed assets plus related working capital) is included in the capital budget, what is the required amount of capital budget ?

(b) How much of the Capital budget must be financed by external equity (that is, issue of new equity shares) to maintain the optimal capital structure ?

(c) Calculate the cost of (i) new issues of equity shares and (ii) retained earnings.

(d) Calculate the weighted average cost jof capital using marginal weights.

6. A company is examining two mutually exclusive investment proposals. The management uses Net Present Value (NPV), Profitability Index, Discounted Pay Back Period Method to evaluate new investment proposals. Advice the company, which proposal should be taken up by it. Depreciation is charged at straight line method :

Year	Proposal A (CFBT in Rs.)	Proposal B (CFBT in Rs.)
1	19,000	19,000
2	19,000	23,000
3	19,000	25,000
4	19,000	19,000
Total	**76,000**	**86,000**
Cost of Capital	@10%	@10%
Investment	23,000	25,000
Expected Life of the Project	4 Years	4 Years
Tax Rate	@50%	@50%

7. Following are the financial statements of the TATA Ltd. for the year 2013-14

P/L Account

Particulars	Amount Rs.	Particulars	Amount Rs.
To, Op. Stocks	80,000	By, Sales	2,40,000
To, Purchase	1,20,000	By, Closing Stock	1,00,000
To, Gross Profit	1,40,000		
	3,40,000		3,40,000
To, Admin. Exp.	40,000	By, Gross Profit	1,40,000
To, Selling and Disst. Exp.	30,000		
To, Interest on Debentures	4,200		
To, Income Tax	29,800		
To, Net Profit	36,000		
	1,40,000		1,40,000

Balance Sheet

Liabilities	Amount Rs.	Assets	Amount Rs.
Capital		Machinery	40,000
5000 Equity Shares of Rs. 10 each	50,000	Stock	1,00,000
8%, 2000 Pref. Shares of Rs. 10 each	20,000	Debtors	60,000
P/L A/c	44,000	Cash	44,000
5% Debentures	80,000		
B/P	30,000		
Tax Payable	20,000		
	2,44,000		2,44,000

You are required to calculate :

(a) Rate of Return on Equity Capital (b) Rate of Return on Total Assets
(c) Earning per Share (d) Capital Gearing Ratio
(c) Working Capital Ratio (f) Stock Turnover Ratio.

8. A Performa Cost Sheet of RR & Co. Ltd., provides the following information. You are required to estimate the working capital needed to finance a level of activity of 52,000 units of production:

	Cost per unit (Rs.)
Raw Material	40
Direct Labour	15
Overheads (excluding deprecation)	30
Total Cost	85
Profit	39
Selling Price	115

Additional information :

(i) Average raw material in stock : one month.
(ii) The materials are in process on an average for half a month. The degree of completion is 50% in respect of all other elements of costs.
(iii) Average finished goods in stock : one month.
(iv) Credit allowed by supplier : one month.
(v) Credit allowed to customers : two months.
(vi) Time lag in payment of wages : one and half weeks.
(vii) Time lag in payment of overheads : one month.
(viii) Half of the total sales is on cash basis.
(ix) Cash balance is expected to be Rs. 12,500.

You may assume that production is carried on evenly throughout the year and wages and overheads accrue similarly.