

SECOND SEMESTER M.B.A. DEGREE EXAMINATION, JUNE 2016

(CUCSS)

BUS 2C 12—FINANCIAL MANAGEMENT

(2013 Admission onwards)

Time : Three Hours

Maximum : 36 Weightage

Part A*Answer all questions.**Each question carries 1 weightage.*

1. Differentiate between profit maximisation and wealth maximisation.
2. What is the difference between Market value Vs intrinsic value ?
3. What is finance engineering ?
4. Differentiate between preference shares and equity shares.
5. Define leasing.
6. Differentiate over capitalization and under capitalization.

(6 × 1 = 6 weightage)

Part B*Answer any six questions.**Each question carries 3 weightage*

7. Explain briefly capital budgeting process.
8. Explain briefly the similarities and dissimilarities between NPV and IRR and NPV and profitability index.
9. With suitable illustration explain Sensitivity analysis, Probability assignment, Standard deviation, Co-efficient of variation and Decision tree in Quantitative techniques in risk analysis.
10. Explain briefly "Arbitrage process" of MM hypothesis with an example.
11. Explain briefly the disadvantages of debenture finance from the point of view of company and from the point of view of investors.
12. The 'F' company has just been incorporated and plans to produce a product that will sell at Rs. 10 per unit. Preliminary market surveys show that demand will be less than 10,000 units per year, but it is not clear by how much less. The company has the choice of buying one of the two machines, each of which has a capacity of 10,000 units per year. Machine A would have fixed costs of Rs. 30,000 per year and would yield a profit of Rs. 30,000 per year if sales were 10,000 units. Machine B has a fixed cost per year of Rs. 16,000 and would yield a profit of Rs. 24,000 per year with sales of 10,000 units.

Turn over

13. A company manufactures a product from a raw material, which is purchased at Rs. 60 per kg. The company incurs a handling cost of Rs. 360 plus freight of Rs. 390 per order. The incremental carrying cost of inventory of raw material is Re. 0.50 per kg per month. In addition, the cost of working capital finance on the investment in inventory of raw material is Rs. 9 per kg per annum. The annual production of the product is 1,00,000 units and 2.5 units are obtained from one kg of raw material. You are required to calculate :
- Calculate the economic order quantity of raw materials.
 - Advise, how frequently should orders for procurement be placed.
 - If the company proposes to rationalise placement of orders on quarterly basis, what percentage of discount in the price of raw materials should be negotiated ?

14. A company's capital structure consists of the following :—

| | |
|--------------------------------|--------------|
| Equity Shares, of Rs. 100 each | Rs. 20 lakhs |
| Retained Earnings | Rs. 10 lakhs |
| 9 % Preference Shares | Rs. 12 lakhs |
| 7 % Debentures | Rs. 8 lakhs |
| | <hr/> |
| Total | Rs. 50 lakhs |
| | <hr/> |

The company earns 12 % on its capital. The income-tax rate is 50 %. The company requires a sum of Rs. 25 lakh to finance its expansion programme for which the following alternatives are available to it.

- Issue of 20,000 equity shares at a premium of Rs. 25 per share.
- Issue of 10 % preference shares.
- Issue of 8 % debentures.

It is estimated that the PIE ratios in the cases of equity, preference and debenture financing would be 21.4, 17 and 15.7 respectively.

Which of the three financing alternatives would you recommend and why ?

(6 × 3 = 18 weightage)

Part C

Answer any **two** questions.
Each question carries 6 weightage.

15. AB Ltd. and XY Ltd. anticipate sales turnover amounting to Rs. 25,00,000, 10 % of which is expected to be profit if each achieves 100 % of normal capacity. The variable costs are Rs. 13,50,000 for AB Ltd. and Rs. 20,00,000 for XY Ltd. Present the necessary details graphically on a single break-even chart, and determine there from the capacity at each of the break-even points.
16. From the following forecasts of income and expenditure, prepare a cash budget for the months January to April, 2008 :

| Months | Sales (Credit) Rs. | Purchases (Credit) Rs. | Wages Rs. | Manufacturing expenses Rs. | Administrative expenses Rs. | Selling expenses Rs. |
|-----------------|--------------------------|------------------------------|--------------|----------------------------------|-----------------------------------|----------------------------|
| Nov. (2007) .. | 30,000 | 15,000 | 3,000 | 1,150 | 1,060 | 500 |
| Dec. (2007) .. | 35,000 | 20,000 | 3,200 | 1,225 | 1,040 | 550 |
| Jan. (2008) .. | 25,000 | 15,000 | 2,500 | 990 | 1,100 | 600 |
| Feb. (2008) .. | 30,000 | 20,000 | 3,000 | 1,050 | 1,150 | 620 |
| Mar. (2008) .. | 35,000 | 22,500 | 2,400 | 1,100 | 1,220 | 570 |
| April (2008) .. | 40,000 | 25,000 | 2,600 | 1,200 | 1,180 | 710 |

Additional information is as follows :

- The customers are allowed a credit period of 2 months.
 - A dividend of Rs. 10,000 is payable in April.
 - Capital expenditure to be incurred : Plant purchased on 15th of January for Rs. 5,000 ; a Building has been purchased on 1st March and the payments are to be made in monthly installments of Rs. 2,000 each.
 - The creditors are allowing a credit of 2 months.
 - Wages are paid on the 1st of the next month.
 - Lag in payment of other expenses is one month.
 - Balance of cash in hand on 1st January, 2008 is Rs. 15,000.
17. A factory is currently working to 50 % capacity and produces 10,000 units. Estimate the profits of the company when it works at 60 % and 80 % capacity and offer your critical comments.
At 60 % working raw material cost increases by 2 % and selling price falls by 2 %. At the 80% working, raw material cost increases by 5 % and selling price falls by 5 %.

Turn over

At 50 % capacity working the product costs Rs. 180 per unit and is sold at Rs. 200 per unit.

The unit cost of Rs. 180 is made up as follows :—

| | Rs. |
|-----------------------------|------------------|
| Material ... | 100 |
| Labour ... | 30 |
| Factory Overhead ... | 30 (40 % fixed) |
| Administrative Overhead ... | 20 (50 % fixed). |

(2 × 6 = 12 weightage).