

VISHWAVIDYALAYA, INDORE
END SEMESTER EXAMINATION — JUNE — 2022
MBA (FINANCIAL ADMINISTRATION) SEMESTER - II
FINANCIAL MANAGEMENT

Time: 3 Hrs.

Max Marks: 60

SECTION—A

Note: Attempt any 1 Question. This section is of 12 Marks. Strictly follow the word limit.
Q1. If a firm went from zero debt to successively higher levels of debt, why would you expect its stock price to first rise, then hit a peak, and then begin to decline?
 [250 Words]

Q2. Capital rationing is a hypothetical situation for a good successful firm because it would always find sufficient funds from the equity or debt markets so as to accept all profitable ventures that are on hand. Do you agree? Justify
 [250 Words]

SECTION—B

Note: Attempt any 3 Question. This section is of 12 Marks.

Q3. (a) A firm finance all its investments by 40% Debt and 60% Equity. The estimated rate of return on equity is 20% after taxes and that of debt is 8% after taxes. The firm is considering an investment proposal costing Rs. 40,000/- with an expected return that will last forever. What amount must the proposal yield per year so that the market price of the share does not change. Show calculations to prove your point. (6 Marks)

(b) A person required Rs. 20,000/- at the beginning of each year from 2005 – 2009. How much should he deposit at the end of each year from 1995 to 2000. The interest rate is 12%. (6 Marks)

Q4. You are asked to comment on the riskiness of the following two firms with the view to make an investment in one of the firms. Give reason for your answer.

Particulars	A. Ltd	B. Ltd.
Share Capital	Rs. 80,0000 (8000 share @ Rs.10 each) $\approx 80,000$	Rs.80,0000(8000 share@ Rs.10 each) $\approx 80,000$
Debt Capital	Rs. 50,000 @ 12% p.a.	1,00,0000 @ 11% p.a.
Sales	2,50,000 Units	1,45,000 Units
Selling Price	Rs. 5 per unit	Rs. 23 per unit
Variable Cost	Rs 3 per unit	Rs 17 per unit
Fixed Cost	Rs. 1,00,000	Rs. 2,80,000
Tax Rate	50%	45%

Q5. Mr. Sumit Jain who has been recently married is considering taking a life insurance policy for his wife Mrs. Shefali Jain aged 18 years for a period of 20 years. Mr. Abhyudaya Anchaliya a close friend of Mr. Sumit advised him to take a money back policy which he has taken for his own wife Mrs. Aradhana. The scheme offers money back at the end of 5th year, 10th year, 15th year and 20th year to the extent of 25%, 25%, 25%, 25%, of the insured amount. The premium Mr. Sumit will pay is Rs. 62/- annually for every Rs.1000/- insured. Mr. Anchaliya also informs him that he will get a minimum bonus to the extent of 40% at the end of the insurance term. Mr. Sumit after working his calculation is of the opinion that the premiums of the policy is on the higher side. A bank is offering a rate of 11% on the long-term deposits of 20 years. Is Mr. Sumit correct in his calculations? Advise him what Mr. Sumit should do? Show your calculations.

Q6. (a) A bank pays 8% interest compounded quarterly on its money market account. The managers of Bank B want its money market account to equal Bank A's effective annual rate, but interest is to be compounded on a monthly basis. What nominal rate must bank B set? (6 Marks)

Q6 (b) Pratyaksh Ltd. generated Rs.1.50 crore from the sale of one of its manufacturing units. The company has an option to invest the money for 5 years in an investment avenue that will give an assured compounded return of 11.5%. On the maturity of investment at the end of 5th year, the firm can invest the money in proposed expansion plans that are projected to cost Rs. 5 crore. If the firm

Section-C

This section is compulsory and carries 12 marks.

Analyse the financial performance of the company using Ratio analysis.

M/s Swarupa Bamboo Works was started on 27-3-2007 with the manufacturing of Bamboo Furniture and Articles.

Cost of Project	Cost of Land and Building:	Rs. 13.00 lacs
	Plant and Machinery:	Rs. 2.30 lacs
	Others:	Rs. 1.44 lacs
	Margin Money for Working Capital:	Rs. 1.26 lacs
	Total Cost :	Rs. 18.00 lacs
Means of Finance	Capital:	Rs. 5.00 lacs
	Term Loan from Bank :	Rs. 13 .00 lacs
	Total:	Rs. 18.00 lacs
	Cash Credit Limit:	Rs. 05.04 lacs

Projected Balance Sheet

Projected Balance Sheet of M/s. Swarupa Bamboo Works (Figures in lacs)					
Particulars	As on 31-3-08	As on 31-3-09	Particulars	As on 31-3-08	As on 31-3-09
Liabilities			Fixed Assets		
Capital	5.00	5.78	Land and Building	11.70	10.53
Profit	3.78	3.98	Furniture and Fixtures	0.45	0.41
Drawings	-3.00	-3.00	Plant and Machinery	2.07	1.86
Net Worth	5.78	6.76	Total Fixed assets	14.22	12.80
Term loans from Bank	13.00	11.00	Preliminary Expenses	1.08	0.81
Cash Credit	4.00	4.10	Debtors	6.30	6.93
Creditors	0.30	0.33	Inventory	1.01	1.11
Other Current Liabilities	0.00	0.02	Cash and Bank Balance	0.37	0.46
Total Current Liabilities	4.30	4.45	Other Current Assets	0.10	0.11

			Total Current Assets	7.78	8.61
Total Liabilities	23.08	22.22	Total assets	23.08	22.22

Profitability Estimates

Income	31-3-08	31-3-09
Sales		
Interest Income/Other Income	25.20	27.72
Total income	0.00	0.10
Opening Stock	25.20	27.82
	0.00	1.01
Purchase of Raw Materials	6.05	6.68
Labour Charges	7.56	8.32
Other Direct Expenses	0.50	0.55
Less Closing Stock	1.01	1.11
Cost of Goods Sold	13.10	15.44
Gross Profit	12.10	12.38
Expenses	31-3-08	31-3-09
Salary and Staff Expenses	1.44	1.58
Rent, Taxes, Insurance	0.10	0.11
Electricity and Water	0.76	0.84
Travelling	0.10	0.11
Other Administration Expenses	0.81	0.89
Total Expenses	3.21	3.53
Profit before DIT	8.89	8.85
Depreciation	1.58	1.42
Profit before Interest and Tax	7.31	7.43
Interest on Loans	1.95	1.80
Interest on Cash credit	0.63	0.61
Total Interest	2.58	2.41
Profit Before Tax	4.73	5.02
Provision for Tax	0.95	1.04
Net Profit	3.78	3.98