0905M154

Candidate's Seat No : ________

M.B.A. (MM) (Sem.-II) Examination
Coasting and Financial Management
May-2017

Time : 3 Hours] **[Max. Marks : 70**

SUBJECT: COSTING AND FINANCIAL MANAGEMENT

Q.1 Answer the following questions: [14]

1. Describe the role of finance manager in the modern organization after giving meaning of financial management.
2. Distinguish between variable cost and fixed cost after defining cost and costing.

Q.2 The following annual figures relate to Super Limited. [14]

	Rs.
Sales (at two months' credit)	6,000,000
Materials consumed (suppliers extend two months credit)	1,600,000
Wages paid (monthly in arrear)	1,300,000
Manufacturing expenses outstanding at the end of the year (Cash expenses are paid one month in arrear)	140,000
Total administrative expenses, paid as incurred	440,000
Sales promotion expenses, paid quarterly in advance	200,000

The company sells its products on gross profit of 20 percent counting depreciation as part of the cost of production. It keeps one month's stock each of raw materials and finished goods, and a cash balance of Rs. 200,000.

Assuming a 5 % safety margin, work out the working capital requirements of the company on cash cost basis. Ignore work-in-process.

OR

Q.2 (a) You plan to go abroad for higher studies after working for the next five years and understand that an amount of Rs.20 lakhs will be needed for this purpose at that time. You have decided to accumulate this amount by investing a fixed amount at the end of each year in a safe scheme offering a rate of interest at 10 percent. What amount should you invest every year to achieve the target amount? [07]

(b) Explain sources of finance for working capital requirement of a firm. [07]

Q.3 F.I. Ltd. has the following capital employed. [14]

Source of funds	Book values (Rs. Crore)	Market values (Rs. Crore)
Equity shares	60	260
Retained earnings	90	
Preference shares	14	12
Debentures	36	28

The firm paid dividend of Rs. 20 last year, which has been growing at 8%. The tax rate is 35%. Following further information is available in respect of various sources of capital:

P. T. O.

Equity Shares: New shares can be issued at a price of Rs. 220 with a flotation cost of 4%.

Preference Shares: New preference shares can be issued at a price of Rs. 110 with 15% dividend and face value of Rs. 100. Flotation cost 2%.

Debentures: New debentures can be issued with 12% interest rate, having face value of Rs. 100, at Rs. 95, to be redeemed after 15 years at par. Floatation cost 1.50%.

Find out WACC based on book values and market values.

OR

Q.3 ABC Ltd needs Rs. 500 lakhs for an expansion plan that is expected to yield 15% return on assets. At present, its return on asset is 12% and the firm is all equity funded. For the proposed expansion, it has alternatives of funding the entire expenditure either through debt or equity.

The following information is available:

No. of shares already issued	20 lakhs
Price at which the shares can be issued	Rs. 50
Interest on debt	10%
Tax rate	40%

Find out the new EPS with equity and debt financing. Also find at what level of earnings the firm is indifferent to mode of financing. [14]

Q.4 The management of Vision Ltd. is considering the replacement of a machine which has a book value of Rs. 2.50 lakhs and a present sale value of Rs. 0.80 lakh. The machine has been depreciated on straight line method at Rs. 0.50 lakh per annum, and is still usable for 5 years, but will have no scrap value at the end of 5 years.

A new machine having a useful life of 5 years and a scrap value of Rs. 0.50 lakh at the end of 5 years is available for Rs. 10 lakhs. Installation of the new machine, it is estimated, would result in a saving of Rs. 2 lakhs p.a. in operating costs at the present level of production. The capacity of the new machine is more than that of the old, and since sales are no problem, utilization of the additional capacity would bring in additional contribution of Rs. 2.50 lakhs p.a. The machine, if installed, would be depreciated on straight line method. Current income tax rate is 50%. Considering the firm's cost of capital 20%, should the company replace the existing machine? [14]

OR

Q.4 Answer the following questions: [14]

1. What do you understand by capital budgeting decision? Explain payback period method and average rate of return method for capital budgeting.
2. Discuss merits and demerits of NPV and IRR methods of capital budgeting.

Q.5 A truck owner supplies the following particulars in respect of a truck of 5 ton capacity. [14]

Cost of truck	Rs. 2, 50,000
Estimated life	10 years
Diesel, oil etc.	Rs. 75 per trip
Repair and maintenance	Rs. 2500 per month
Driver salary	Rs. 1000 per month
Cleaner salary	Rs. 400 per month
Insurance	Rs. 18,000 p.a.
Tax	Rs. 15,000 p.a.
General supervision charges	Rs. 6000 p.a.

The truck carries goods to and from the city every day covering a distance of 80 k.m. each way. On onwards trips freight is available to the extent of full capacity and on return 25% of capacity. The truck operates on an average of 25 days a month.

Work out operating cost per ton kilometer and rate per ton per trip that he has to charge if a profit of 33 1/3% on freightage is to be earned.

OR

Q.5 NI Ltd. operated at normal capacity during the current year producing 50,000 units of its single product. Sales totaled 50,000 units at an average price of Rs. 20 per unit. Variable manufacturing cost were Rs. 8 per unit and variable marketing cost were Rs. 4 per unit sold. Fixed cost were incurred uniformly throughout the year and amounted to Rs. 1, 88,000 for manufacturing and Rs. 64,000 for marketing. There was no year end work in progress inventory.

Required: [14]

1. Calculate the company's break-even point in sales rupees for the current year.
2. Calculate the number of units required to be sold in the current year to earn an after tax profit of Rs. 90,000, if tax rate is 50%.
3. Find out profit/loss when sales is 30,000 units and 60,000 units.
4. Company's variable manufacturing costs are expected to increase by 10% in the coming year. Calculate break-even point in sales rupees.

****