Roll No. | | | | | | | | | | | | | **Total No. of Pages : 03**

Total No. of Questions : 15

MBA/MBA (IB) (2012 & Onward) (Sem.–2)

FINANCIAL MANAGEMENT

Subject Code : MBA-205

Paper ID : [C0250]

Time : 3 Hrs. **Max. Marks : 60**

INSTRUCTIONS TO CANDIDATES :

1. **SECTION-A contains SIX questions carrying FIVE marks each and students has to attempt any FOUR questions.**
2. **SECTIONS-B consists of FOUR Subsections : Units-I, II, III & IV. Each Subsection contains TWO questions each carrying EIGHT marks each and student has to attempt any ONE question from each Subsection.**
3. **SECTION-C is COMPULSORY and consists of ONE Case Study carrying EIGHT marks.**

SECTION-A

1. Define Wealth Maximization.
2. What do you mean by Venture Capital?
3. Describe Net Present Value.
4. What is Capital Rationing?
5. State Operating Leverage?
6. Elaborate EBIT/EPS.

SECTION-B

UNIT - I

7. How should the finance function of an enterprise be organized? What functions does the financial officer perform?
8. What are different methods through which listed companies can meet their long term financial requirements?

UNIT - II

9. What is the Capital Assent Pricing model? Explain its assumptions and implications.

10. "*Generally individuals show a time preference for money*". Give reasons for such a preference.

UNIT - III

11. From the following information of ABC Ltd., calculate percentage change in earnings per share if sales increased by 5 percent.

		Rs. in Lakh
EBIT	-	1120
PBT	-	320
Fixed cost	-	700

12. Define Capital Structure. What are the features of an appropriate capital structure?

UNIT - IV

13. Explain the objectives of Credit Policy. Describe its variables.

14. How is the re-order point determined? Illustrate with an example and graphically.

SECTION-C

15. **Case Study :**

Relax Pharmaceuticals Limited

Relax Pharmaceuticals Limited is medium-size pharmaceutical company. Its annual sales are Rs 1,200 million. Relax has been facing tough competition from multinational and domestic pharmaceutical companies over last few years, particularly because of deregulation of the industry. Relax's profit margins have been declining during three years. The managing director of the company thought that this could be due to about 15 per cent of total sales to financially weak customers. He thought that perhaps the cost of maintaining these marginal accounts is high which may be causing a decline in the firm's profit margin. He therefore asked his financial manager to analyse the impact of tightening the credit policy by discontinuing sales to these customers. After analysing past data, the financial manager has determined cost behaviour, given Rs 1,200 million sales, as given in Table below. On further investigation, he found that bad-debt losses are entirely attributable to the marginal accounts, while 25 per cent of the collection costs are for the good customers and remaining for the marginal accounts.

Standard Furniture Mart's Behaviour of Cost (Percentage)

	Fixed	Variables	Total
Cost of goods sold	-	80.00	80.00
Administrative costs	3.50	3.00	6.50
Selling Costs	4.50	3.73	8.23
Bad-debt losses	-	0.15	0.15
Collection costs	-	0.12	0.12
	8.00	87.00	95.00

The company's cash sales are about 10 per cent. The financial manager found out that the average collection period of marginal accounts was 70 days against 60 days of all other accounts and 100 per cent of sales to marginal accounts are on credit. The company has a policy of extending days' credit to all customers. Relax's required rate of return for average risk project is 15 per cent.

It was the view of the marketing manager that the company was facing competition and it could increase its sales by relaxing the credit policy rather making it restrictive. He discussed this with the finance manager. According to the marketing managers if the customers are allowed a credit period of 70 days, instead of the current policy of 50 days, sales could increase by 20 percent. It is expected that the increased sales will be on credit and the three-fourths of this sales will come from the marginal customers. It is also expected that the average collection period of the marginal accounts will increase to 90 days and 75 days for the good customers. In case of the sales to the marginal customers the bad-debt losses are expected to increase to 5.5 percent. The collection charges mostly attributable to the marginal accounts will increase by Rs. 50,000. Along with relaxing the credit terms, the financial manager also thought of introducing the scheme of discount for the prompt payment. Customers could avail 2 per cent cash discount if they pay within 30 days; they should otherwise pay within 70 days. A quick analysis of accounts indicated that 30 per cent of the good customers might avail cash discount, and the remaining good customers might, on average, take 75 days to make payment. There is no possibility of the marginal accounts availing the discount.

Discussion Questions :

a) What is Relax's investment in accounts receivable (debtors)? Is it high?

b) What are marginal accounts? Should Relax discontinue its sales to marginal accounts? Why or why not? Show calculations.

c) Discuss the features of Relax's proposed credit policy. What are its financial implications? Show calculations.

d) Do you think that average collection period is a relevant criterion for monitoring Relax's debtors? What alternative do you suggest and why?