MBFM 3001/MBLF 3002

M.B.A. DEGREE EXAMINATION,
DECEMBER 2016/JANUARY 2017.

Third Semester

Finance

STRATEGIC FINANCIAL MANAGEMENT

Time : Three hours Maximum : 100 marks

PART A — ($5 \times 6 = 30$ marks)

Answer any FIVE out of the following.

1. Explain the strategic planning process.

2. Define Risk. Explain the techniques available for incorporating risk into capital budgeting.

3. "Corporate restructuring may not always be successful". Discuss the statement with an example to support your opinion.

4. Discuss the salient features of leveraged buy-out.

5. How is merger different from a demerger? Explain.

6. Is it necessary for a company to buy back the shares? Explain.

7. What is sustainable growth model? Explain.

8. Write a note on deep discount Bonds.

PART B — (5 × 10 = 50 marks)

Answer any FIVE out of the following.

9. What is high technology strategic investment? State its pre-requisites.

10. Define cross-border mergers with examples. Explain in detail the benefits and constraints associated with them.

11. Discuss the accounting and tax treatment of an operating lease.

12. Explain the various constraints in acquisitions relating to acquiring and acquired company.

13. Explain the various innovative sources of finance.

Industry analysts estimated that the company spends \$ 50 million more on advertising in the fourth quarter of 2000 than in the same period last year. Shifting fund from traditional media such as newspaper inserts to newer, less-proven forms such as infomercials, and sponsoring a 30-city concert tour by singer 'Madonna' also cost the company, and exposed it to risks. Yet the risks seemed to pay-off. The company's \$ 40 million print and broadcast campaign, "Softer Side of Sears, Cliffs & Co". Improved its image among women, and apparel sales rose. Thus, changes that Andrew brought to Sears helped it to regain its strength as a retail giant, and currently it is ranked number two in the retail industry.

(1) What were the major strategically significant steps taken by Andrew for restructuring and bringing about financial stability in Sears, Cliffs and Co.?

(2) How well did the company implement the strategy?

(3) In the context of the above caselet, explain the advantages of strategically managing the company.

took a lot of short-term measures to enhance service, such as emphasizing training, putting the best people in the stores during evenings and weekends when the best customers were shopping, offering Sunday deliveries etc. Under Andrew's direction, the company developed three compelling factors:

(i) A compelling place to shop measured by overall customer satisfaction and customer retention

(ii) A compelling place to invest measured by revenue growth, operating margins, asset utilization, and indicators of productivity improvement

(iii) A compelling place to work measured by attitudes about the job and the company.

The company's measurement practices were based on the desire to develop leading, not lagging indicators of performance. To raise consumer awareness of the changes, the company boosted its $ 1 billion marketing budget by 9 percent. It also began increasing the number of national brands it offered, from 40 percent to half of its merchandise mix.

The new operational strategy of the company had its costs. The company's big marketing push was expensive.

14. Explain the concept of venture capital and its development in India.

15. Remington Ltd. is considering an investment proposal which requires 20 Lakhs. The expected cash inflows and certainty coefficient are as follows:

Year	1	2	3	4	5
Cash inflow (Rs.)	6,00,000	3,00,000	7,00,000	8,00,000	9,00,000
Certainty coefficient	0.9	0.85	0.8	0.75	0.65

Risk- free rate is 6%. Determine NPV of proposal.

16. Explain the process of financial model development.

PART C — (1 × 20 = 20 marks)

Case Study.

Compulsory.

17. Sears, Cliffs & company has over a century full of history and incredible achievements. It has been a dominant force in the retail Industry for many years. In 1886, Richard Sears began a company known as RW Sears Watch Company in Minneapolis. A year later in 1887, Sears moved his newfound business to Chicago, and placed an advertisement in the newspaper for a watchmaker. The ad received a response from an Indian man by the name of A Cliffs. Sears hired Cliffs and in 1893, the corporate name of the firm became Sears, Cliffs & company. In 1895, Sears

had introduced a mail order catalog that consisted of 532 pages offerings shoes, women's garments, wagons, fishing tackle, stoves, furniture, saddles, bicycles, etc., that helped customers in rural areas receive merchandise that they might not be able to receive at local stores. Between the years 1940 and 1970, Sears went through many changes and expansions making it one of the leading retail contenders. One aspect that Sears developed and perfected was the idea of developing the stores around the merchandise. It also expanded the business to Canada and Mexico.

However, in 1992, Sears realized an extreme financial loss and was faced with the possibility of a deteriorating business. There were many reasons that caused the problems, foremost being absence of positive communication between higher up officers within the company. But, March 2000 unveiled the new image for Sears, Cliffs & Co. as the nations' third largest retailer. By the end of the year, the 500-store chain had bounced back from the previous years' record loss to a profit, and delivered a 19 percent return on equity to its investors. Sears achieved this success, in large part, because it was able to do in one year what it had planned to do in three years.

The person behind this success was the company's chairman, Andrew John, who joined the company a year back as chairman of its merchandise group. Under his leadership, the company saw an extreme turn around not only financially but also

internally throughout the stores. Andrew had an ambitious strategy to turn the company into a competitive, moderately priced department store. His strategy emphasized selling apparel, which is profit-rich, while defending the company's market share in hardware and appliances. It included a $ 5 billion plan to renovate stores, build more free-standing hardware stores, and move furniture into separate emporiums. Andrew had begun his job with three objectives:

(a) Sell or close operations that were unprofitable or that diverged from the company's new strategy,

(b) Assemble a new management team, and

(c) Put the new merchandising plan to work.

In May 2000, Andrew had taken the first initiative by closing the company's 30-year-old catalog business, which had been losing $ 104 million a year. His next step was to clear the organizational decks. The 3,000 employees who accepted the company's early retirement offer included the heads of the marketing, public relations, retail, and automotive divisions. Although clothing accounted for only 26 percent of the company's annual store sales of about $ 22.5 billion, it brought in some 57 percent of the merchandise unit's profits. Because higher apparel sales also increased store traffic, the company wanted to boost the apparel's share to about 39 percent of store sales. Andrew

MBFM 3002

M.B.A. DEGREE EXAMINATION,
DECEMBER 2016/JANUARY 2017.

Third Semester

Finance

BANKING AND INDIAN FINANCIAL SYSTEMS

Time : Three hours — Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions.

1. Explain the provisions of Banking Regulation Act regarding businesses which can be transacted by banks.

2. What is Asset-Liability Management (ALM)? State its significance.

3. Briefly bring out the classification of banks in India.

4. Explain the precautions to be exercised by banker while operating an account of illiterate.

5. Explain the different modes through which banks grant loans to their customers.

6. Discuss the importance of providing autonomy to a country's central bank.

7. Differentiate primary and secondary market and highlight the importance of the two for each other.

8. Discuss the significance of Non-negotiable crossing.

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. Explain how the monetary policy tries to balance inflation and economic growth of a country.

10. Explain the functions of IBRD.

11. Explain the importance of capital market for development of economy.

12. Explain the pros and cons of FDI with special reference to developing countries like India.

13. Explain the precautions to be exercised by a paying banker on cheques presented for payment.

14. Explain the different types of endorsement.

15. Explain how RBI uses monetary policy tools to control inflation.

16. Explain the requirements for listing of securities.

PART C — (20 marks)

Case Study (Compulsory)

17. Mr. A was on a trip to Madurai from Chennai and Mr. B stole his bag on the way. The bag contained an I phone costing Rs. 75,000 and a cheque issued to A by Z for Rs. 1,00,000. Mr. B sold the phone to Mr. C while he endorsed the cheque in his favour by forging the signature of Mr. A and further endorsed the cheque in favour of Mr. C for Rs. 1,00,000. Mr. C obtained both the cheque and phone by paying the full price and without knowing about the theft transaction.

Police catches Mr. C and the phone and cheque is claimed by Mr. A. Mr. C claims to retain the phone and cheque as he has obtained both for full consideration and without knowing about the defective title of Mr. B.

Discuss the position of Mr. C.

material disclosure" because CARE had specifically sought such approval from the Reserve Bank of India (RBI). At the same time, they omitted the disclosure of another condition applicable to the Offer under the FDI route by unilaterally assuming the non-applicability of the said condition..

(a) Discuss how it affects the investors, if disclosure norms are violated by the merchant bankers?

(b) If you are a consultant for SEBI, what are your recommendations to avoid such violations in future?

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MBFM 3003/GN 3003/MBLG 3001

M.B.A. DEGREE EXAMINATION,
DECEMBER 2016/JANUARY 2017.

Third Semester

Finance

MERCHANT BANKING AND FINANCIAL SERVICES

Time : Three hours Maximum : 100 marks

SECTION A — ($5 \times 6 = 30$ marks)

Answer any FIVE questions.

1. Briefly explain the term Book building.

2. Discuss the importance of underwriters in the capital market.

3. Explain any three fund based activities in a bank.

4. Discuss the impact of technology in banking and financial services business.

5. State any three new financial products and services offered by a bank.

6. Define venture capital. What are the different forms of venture capital financing?

7. Discuss briefly different types of insurance.

8. State briefly about any three merchant bankers in India.

SECTION B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. Discuss the various regulations applicable for merchant banking in India.

10. What is IPO? Explain briefly the procedures involved in issuing of an IPO.

11. Discuss the structure of Indian financial market. And also explain the hybrid financial instruments.

12. What is securitization? Discuss various types of securitization practices?

13. What is leasing and hire purchasing? How do they different from each other?

14. Evaluate in detail the performance of any two mutual funds in India.

15. Describe the process of Asset Liability Management (ALM).

16. What is credit rating? Explain the rating process and methodology involved.

SECTION C — (1 × 20 = 20 marks)

Case Study – Compulsory.

17. In a major clampdown for "suppression of material facts" in IPO documents, the Securities and Exchange Board of India (SEBI) recently penalized merchant banking arms of State Bank of India (SBI), ICICI Bank, Kotak Mahindra Bank, IDBI Bank, DSP Merrill Lynch and Edelweiss groups for lapses during the public offer of rating agency CARE two years ago. The six merchant banks have been asked to pay a fine of Rs. 1 crore, the maximum penalty applicable for violation of disclosure related norms in IPO documents, within 45 days. Taking a strong view about the violation of SEBI norms as also the Code of Conduct for merchant banks and book-running lead managers (BRLMs) for public issues, SEBI said in its 86-page order, "While making disclosures in the Red Herring Prospectus, the BRLMs cannot pick and choose some material facts that they prefer to disclose and suppress some material facts."

The IPO came in December 2012, prior to which these six bankers had filed a Red Herring Prospectus for the public issue involving sale of nearly 72 lakh shares. In this case, the bankers had made disclosure of one of the conditions under the FDI route in the RHP, terming it as "a

MBFM 3004/LF 4001

M.B.A. DEGREE EXAMINATION,
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Third Semester

Finance

PROJECT MANAGEMENT

Time : Three hours — Maximum : 100 marks

PART A — ($5 \times 6 = 30$ marks)

Answer any FIVE questions.

1. Define project. What are the qualities of an efficient project manager?

2. Why is project evaluation essential?

3. Explain the Responsibility Matrix. Mention its purposes.

4. Enumerate the benefits of project planning.

5. Write a note on project constraints.

6. Elaborate Resource Leveling and Resource Allocation.

7. What are project team pitfalls?

8. Discuss NPV and its advantages.

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions.

9. What is Project Management? Explain the importance of Project Management.

10. Elaborate Organizational and Project considerations while choosing the appropriate project management structure.

11. What is project feasibility study? Discuss different aspects of feasibility study.

12. What is Project Life Cycle (PLC)? Explain features of PLC stage – wise.

13. Define PERT and CPM. Explain its merits and demerits.

14. What are the causes for cost escalations and time overrun in a project and how can these be avoided?

15. Explain the steps involved in Project control process.

16. Discuss the situational factors affecting team development in a project.

PART C — (1 × 20 = 20 marks)

Compulsory

17. (a) Calculate the present value of Rs. 18,000 to be received after 10 years if the interest rate is 11%. (5)

(b) Consider below table summarizing the details of a project involving 11 activities. (15)

Details of Project

Activity	Predecessor(s)	Duration (Weeks) a	m	b
A	–	6	7	8
B	–	1	2	9
C	–	1	4	7
D	A	1	2	3
E	A,B	1	2	9
F	C	1	5	9
G	C	2	2	8
H	E,F	4	4	4
I	E,F	4	4	10
J	D,H	2	5	14
K	I,G	2	2	8

(i) Construct the project network.

(ii) Find the expected duration and variance of each activity.

(iii) Find the critical path and expected project completion time.

(iv) What is the probability of completing the project on or before 25 weeks?

MBFM 3005/
MBLF 4002

M.B.A. DEGREE EXAMINATION,
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Third Semester

Finance

MANAGEMENT ACCOUNTING

Time : Three hours Maximum : 100 marks

PART A — (5 × 6 = 30 marks)

Answer any FIVE questions out of Eight questions.

1. Outline the need and significance of Management Accounting.

2. Define Break Even Analysis. What are the assumptions of Break Even Analysis?

3. Differentiate Fund Flow Statement from Cash Flow Statement.

4. The expenses for the production of 5000 units in a factory are given as follows :

	Per Unit (Rs.)
Materials	50
Labour	20
Variable Overheads	15
Fixed Overheads (Rs. 50,000)	10
Administrative Overheads (5% Variable)	10
Selling Expenses (20% Fixed)	6
Distribution Expenses (10% Fixed)	5
Total cost of sales per unit	116

You are required to prepare a budget for the production of 7000 units.

5. Sales Rs. 1,00,000

Profit Rs. 10,000

Variable Cost 70%

Find out

(a) P/V Ratio

(b) Fixed Cost

(c) Sales volume to earn a profit of Rs. 40,000.

restaurants, and general facilities, such as washroom linen. The company's headquarters are in London but its operations are spread across the UK and Ireland, continental Europe and Scandinavia. These are managed by two separate companies: Sunlight in the UK and Berendsen on the Continent. Sunlight is the market leader in the UK. Berendsen is the market leader in Norway, Sweden, Denmark and Holland. Sales for the combined group in 2008 were worth £954 million. City financial analysts have forecast that 2009 sales will be at least equivalent to the 2008 level, if not modestly ahead.

Despite the severe recession of 2008-09, Davis continued to be a profitable company. This has been the result of careful budgeting. Budgeting involves making detailed financial plans for every aspect of the business, identifying risks and ensuring that managers are committed to the outcomes that they have agreed. Budgets are forward financial plans. They show financial targets over a given period of time for income, expenditure and cash flows within a business. Davis uses budgets to plan the future use of its resources, either in the short or long term.

Comment on the key issues behind the case and justify the same.

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6. B.M. Company presents the following information and you are required to calculate Funds from operations :

Profit and Loss Account

	Rs.		Rs.
To Expenses :		By Gross profit	2,00,000
Operation	1,00,000	By Gain on sale of plant	20,000
Depreciation	40,000		
To Loss on sale of building	10,000		
To Advertisement Suspense A/c	5,000		
To Discount allowed to customers	500		
To Discount on issue of shares written off	500		
To Goodwill	12,000		
To Net profit	52,000		
	2,20,000		2,20,000

7. The standard materials required for producing 100 units is 120 kgs. A standard price of 0.50 paise per kg is fixed and 2,40,000 units were produced during the period. Actual materials purchased were 3,00,000 kgs at a cost of Rs. 1,65,000.

Calculate Material Cost Variance, Material Price Variance and Material Usage Variance.

8. From the following Balance Sheet of Mr. A, prepare a schedule of changes in working capital.

Liabilities	2007 (Rs.)	2008 (Rs.)	Assets	2007 (Rs.)	2008 (Rs.)
Capital	63,000	1,00,000	Cash	15,000	20,000
Long term borrowings	50,000	60,000	Debtors	30,000	28,000
Trade creditors	42,000	39,000	Stock-in-trade	55,000	72,000
Bank overdraft	35,000	25,000	Land and Buildings	80,000	1,00,000
Outstanding expenses	5,000	6,000	Furniture	15,000	10,000
	1,95,000	2,30,000		1,95,000	2,30,000

PART B — (5 × 10 = 50 marks)

Answer any FIVE questions out of Eight questions.

9. Define Management Accounting. Discuss in detail the scope of Management Accounting.

10. What is a Report? Write the objectives of reporting and also explain the types of Reports.

11. Prepare a Production Budget for each month and a summarized Production Cost Budget for the six months period ending 31st December 2008 from the following data of Product X.

16. From the following Balance sheets of S.M. Industries, prepare a Fund Flow Statement.

Liabilities	2007 (Rs.)	2008 (Rs.)	Assets	2007 (Rs.)	2008 (Rs.)
Share capital	60,000	65,000	Goodwill	30,000	25,000
Profit and Loss A/c	34,000	26,000	Plant and Machinery	60,000	50,000
Current liabilities	12,000	3,000	Current assets	16,000	19,000
	1,06,000	94,000		1,06,000	94,000

Additional Information :

(a) Depreciation of Rs. 20,000 on Plant and Machinery was charged to Profit and Loss Account.

(b) Dividends of Rs. 12,000 were paid during the year.

PART C — (1 × 20 = 20 marks)

17. Case Study-Compulsory

Davis Service Group is a large public limited company employing around 17,000 people. Its shares are quoted on the London Stock Exchange. The business is based on service contracts to source, clean and maintain industrial textiles such as protective clothing and linens. This is across four key sectors: workwear, healthcare, hotels and

15. Present the following information to show clearly to management

(a) The marginal product cost and the contribution per unit

(b) The total contribution and profits resulting from each of the following mixtures.

	Product	Price per unit (Rs.)
Direct material	A	10
Direct material	B	9
Direct wages	A	3
Direct wages	B	2
Fixed expenses Rs. 800		

Variable expenses are allotted to the products as 100% of direct wages.

	Product	Price per unit (Rs.)
Sale price	A	20
Sale price	B	15

Sales Mixtures :

(i) 100 units of product A and 200 of B

(ii) 150 units of product A and 150 of B

(iii) 200 units of product A and 100 of B.

(a) The units to be sold for different months are as follows : July 2008, 1,100; August 1,100; September 1,700; October 1,900; November 2,500; December 2,300; January 2009 2,000.

(b) There will be no work in progress at the end of any month.

(c) Finished units equal to half the sales for the next month will be in stock at the end of each month (including June, 2008).

(d) Budgeted production and production cost for the year ending 31st December, 2008 are as follows: Production (units) 22,000; Direct Materials (per unit) Rs. 10; Direct Wages (per unit) Rs. 4. Total factory overheads apportioned to products Rs. 88,000.

12. The following details are available from a company.

	31.12.07 (Rs.)	31.12.08 (Rs.)		31.12.07 (Rs.)	31.12.08 (Rs.)
Share capital	70,000	74,000	Cash	9,000	7,800
Debentures	12,000	6,000	Debtors	14,900	17,700
Reserve for doubtful debts	700	800	Stock	49,200	42,700
			Land	20,000	30,000
			Goodwill	10,000	5,000
Trade creditors	10,360	11,840			
P/L A/c	10,040	10,560			
	1,03,100	1,03,200		1,03,100	1,03,200

In addition you are given :

(a) Dividend paid total Rs. 3,500.

(b) Land was purchased for Rs. 10,000.

(c) Amount provided for amortization of goodwill Rs. 5,000.

(d) Debentures paid off Rs. 6,000.

Prepare Cash Flow Statement.

13. In a manufacturing concern, the standard time fixed for a month is 8000 hours. A standard wage rate of Rs. 2.25 P. per hour has been fixed. During one month, 50 workers were employed and average working days in a month are 25. A worker works for 7 hours in a day. Total wage bill of the factory for the month amounts to Rs. 21,875. There was a stoppage of work due to power failure (idle time) for 100 hours. Calculate Labour Cost Variance, Rate of Pay Variance, Net Labour Efficiency Variance and Idle Time Variance.

14. 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.
2007 Nov.	30,000	15,000	3,000	1,150	1,060	500
Dec.	35,000	20,000	3,200	1,225	1,040	550
2008 Jan.	25,000	15,000	2,500	990	1,100	600
Feb.	30,000	20,000	3,000	1,050	1,150	620
Mar.	35,000	22,500	2,400	1,100	1,220	570
April	40,000	25,000	2,600	1,200	1,180	710

Additional information is as follows :

(a) The customers are allowed a credit period of 2 months.

(b) A dividend of Rs. 10,000 is payable in April.

(c) 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 instalments of Rs. 2,000 each.

(d) The creditors are allowing a credit of 2 months.

(e) Wages are paid on the 1st of the next month.

(f) Lag in payment of other expenses is one month.

(g) Balance of cash in hand on 1st January 2008 is Rs. 15,000.