

# CBCS Scheme

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16MBA22

Second Semester MBA Degree Examination, Dec.2017/Jan.2018

## Financial Management

Time: 3 hrs.

Max. Marks:80

- Note:** 1. Answer any Four questions from Q.No. 1 to Q.No. 7.  
2. Question No. 8 is compulsory.  
3. Annuity table may be used.

- 1 a. Define Financial Management. (02 Marks)  
b. ABC Ltd., has the following capital structure :

| Source                         | Rs        |
|--------------------------------|-----------|
| Equity (Expected dividend 12%) | 10,00,000 |
| 10% Preference                 | 5,00,000  |
| 8% Loan                        | 15,00,000 |

Calculate the weighted average cost of capital, assuming 50% as the rate of income tax, before and after tax. (06 Marks)

- c. A company issues 10,000, 10% preference shares of Rs 100 each. Cost of issue is Rs 2 per share. Calculate cost of preference capital if these shares are issued i) at par ii) at a premium of 10% iii) at a discount of 5%. (08 Marks)
- 2 a. Explain the term CAPM. (02 Marks)  
b. Wealth maximization objective is superior than profit maximization, explain. (06 Marks)  
c. A project involves initial investment for \$ 5,000,000. The net cash inflow during the first, second and third year is expected respectively \$ 3,000,000, \$ 3,500,000 and \$ 2,000,000. At the end of third year the scrap value (salvage value) is indicated at \$ 1,000,000. The risk – adjusted discount rate is 10%, calculate the NPV. (08 Marks)
- 3 a. What are the two important characteristics of current – assets? (02 Marks)  
b. What is the difference between operating leverage and financial leverage? (06 Marks)  
c. A firm purchases a machinery for Rs 800,000 by making a down payment of Rs 150,000 and remainder in equal installments of Rs 150,000 for six years. What is the rate of interest to the firm? (08 Marks)
- 4 a. Define Working Capital. (02 Marks)  
b. Describe the features of equity shares. What is the difference between equity share and debentures? (06 Marks)  
c. Mr. Longmari borrow Rs 10,00,000 at an interest rate of 15% and the loan is to be paid in 5 equal installments payable at the end of each of the next 5 years. Prepare the loan amortization schedule. (08 Marks)
- 5 a. How long will it take to double your money if it grows at 12% annually? (02 Marks)  
b. A company has Rs 100,000, 10% debentures and 5,000 equity shares outstanding. It is in the 35% tax bracket. Assuming three level of EBIT : i) Rs 50,000 ii) Rs 30,000 iii) Rs 70,000. Calculate the change in EPS, assuming base level of EBIT = Rs 50,000. (06 Marks)  
c. Explain the factors affecting the cost of capital. (08 Marks)



- 6 a. What is Sinking Fund Factor? (02 Marks)  
 b. What is Annuity? Explain different type of annuity with example. (06 Marks)  
 c. The relevant financial information for XYZ Ltd., for the year ended 2012 is given below. (Profit and Loss account Rs in million). (08 Marks)

| Particulars        |    |          |            |
|--------------------|----|----------|------------|
|                    |    | 1.1.2012 | 31.12.2012 |
| Sales              | 80 |          |            |
| Cost of goods sold | 56 |          |            |
| Inventory          |    | 9        | 12         |
| Account Receivable |    | 12       | 16         |
| Account Payable    |    | 7        | 10         |

What is the length of Operating cycle and the cash cycle? Assume 365 days to a year.

- 7 a. What do you mean by Capital budgeting? (02 Marks)  
 b. Explain different approaches of working capital (current assets) financing policy. (06 Marks)  
 c. Calculate Operating leverage, Financial leverage and Combined leverage from the following information : (08 Marks)

| Particulars   | Disha Company Ltd., (Rs) | Gagan Company Ltd., (Rs) |
|---------------|--------------------------|--------------------------|
| Sales         | 25,00,000                | 35,00,000                |
| Variable cost | 7,00,000                 | 11,00,000                |
| Fixed cost    | 8,00,000                 | 10,00,000                |
| Interest      | 3,00,000                 | 4,00,000                 |

- 8 A Company is considering the following investment projects :

| Projects | Cash flows (Rs) |                |                |                |
|----------|-----------------|----------------|----------------|----------------|
|          | C <sub>0</sub>  | C <sub>1</sub> | C <sub>2</sub> | C <sub>3</sub> |
| A        | -10,000         | +10,000        |                |                |
| B        | -10,000         | +17,500        | +7,500         |                |
| C        | -10,000         | +12,000        | +4,000         | +12,000        |
| D        | -10,000         | +10,000        | +3,000         | +13,000        |

- a. Rank the project according to each of the following methods :  
 i) Payback ii) ARR iii) IRR and iv) NPV ; assuming discount rates of 10 and 30 percent.  
 b. Assuming the projects are independent , which one should be accepted? If the projects are mutually exclusive, which project is the best and why? (16 Marks)

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