CBCS SCHEME

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18MBA22

Second Semester MBA Degree Examination, Dec.2019/Jan.2020
Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FOUR full questions from Q.No.1 to Q.No.7.***
2. ***Question No. 8 is compulsory.***

1 a. Define Financial Management. **(03 Marks)**
b. Briefly explain the various objectives of financial management. **(07 Marks)**
c. XYZ company borrows Rs.10,00,000 at the rate of interest 15%, the loan is to be repaid 5 equal installments paid at the end of each year. Calculate the loan amortization. **(10 Marks)**

2 a. What do you mean by marginal cost of capital? **(03 Marks)**
b. Briefly explain the interface of financial management with other functional areas. **(07 Marks)**
c. Explain in detail the Indian Financial System according to functional classification. **(10 Marks)**

3 a. What do you mean by leasing? State the types of leasing. **(03 Marks)**
b. Briefly explain the various short term sources of finance. **(07 Marks)**
c. (i) Calculate the compound value of Rs.15000 at the end of 3 years at 12% interest rate, when interest is calculated on the basis, Yearly, Half yearly, Quarterly and Monthly. **(06 Marks)**
(ii) If we deposit of Rs.1,00,000 at 7% rate of interest in how many years this amount will be double according to 72 rule and 69 rule. **(04 Marks)**

4 a. What is the meaning of Time Value of Money? **(03 Marks)**
b. Mr. Ganesh deposited at the end of each year Rs.5000, Rs.10,000, Rs.15,000, Rs.20,000 and Rs.25,000 in his Saving Bank account in year 1 to 5 years respectively. Interest rate of 6%. He wants to know his future value of deposits at the end of 5 years. **(07 Marks)**
c. ABC company has, on its book the following amounts and specific cost of each types of capital.

Type of capital	Book value	Market value	Specific cost in (%) after tax
Debt	4,00,000	3,80,000	5
Preference share	1,00,000	1,10,000	8
Equity share	6,00,000	9,00,000	15
Retained earning	2,00,000	3,00,000	13
	13,00,000	16,90,000	

Determine the WACC using Book Value Weight and Market Value Weight. **(10 Marks)**

5 a. What is CAPM? **(03 Marks)**
b. Briefly explain the variety factors which are influencing working capital requirements. **(07 Marks)**
c. Miss Spoorti paper mills providing the following information and requested you to calculate cash conversion cycle. **(10 Marks)**

Profit and Loss data (Rs. in lakhs)
Sales 800
Cost of goods sold 720

Balance sheet data (Rs. in lakhs)

Particulars	Opening	Closing
Inventory	96	102
Receivables	86	90
Payables	56	60

6 a. What do you mean by optimum capital structure? **(03 Marks)**

b. Explain in brief the various factors affecting Dividend Policy. **(07 Marks)**

c. From the following information calculate the working capital requirement for a company:

(i) Annual sales 2,00,000 units.

(ii) Selling price Rs.8 per unit.

(iii) Percentage net profit on sales 25%.

(iv) Average credit period allowed to customers 8 weeks.

(v) Average credit period allowed by suppliers 4 weeks.

(vi) Average stock holding in terms of sales requirements 12 weeks.

(vii) Allow 10% for contingencies. **(10 Marks)**

7 a. Compute NPV of the project which requires an initial investment of Rs.1,60,000 and a net cash inflow of Rs.48,000 each for 6 years. The cost of funds is 8%. **(03 Marks)**

b. Distinguish between primary and secondary market. **(07 Marks)**

c. A firms sales, variable cost and fixed cost amount to Rs.75,00,000, Rs.42,00,000 and Rs.6,00,000 respectively.

It has borrowed Rs.45,00,000 at 9% and its equity capital total Rs.55,00,000.

(i) What is the firm's ROI?

(ii) Is it a favourable financial leverage?

(iii) If the firm belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage.

(iv) What are the operating, financial and combined leverage of the firm? **(10 Marks)**

8 **Case Study : Compulsory**

Vivek Enterprises is considering a project proposal for replacement of an old machine by a new machine.

The old machine bought few years ago as a book value of Rs.4,00,000 and it can be sold to realize a post tax salvage value of Rs.5,00,000. It has remaining life of 5 years after which its net salvage value is expected to be Rs.1,60,000. It is being depreciated annually at the rate of 25% under the WDV method. Working capital required for the old machine is Rs.4,00,000.

The new machine cost Rs.16,00,000, it is expected to be net salvage value of Rs. 8,00,000 after 5 years. When it will no longer be required. The depreciation rate applicable to it is 25% under the WDV method. The net working capital required for the new machine is Rs.5,00,000. The new machine is expected to bring a saving of Rs.3,00,000 annually on manufacturing cost (other than depreciation). Tax rate applicable to firm is 40%. **(20 Marks)**

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