CBCS SCHEME

USN | | | | | | | | | | |

20MBA22

Second Semester MBA Degree Examination, Jan./Feb. 2023
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. What is Financial Engineering? **(03 Marks)**

b. Write a short note on Derivatives. **(07 Marks)**

c. A Firm has initial Investment of Rs 100000 and cash inflows as shown below :

Year	Cash Inflow	PV factors @ 10%
1	50000	0.909
2	40000	0.826
3	30000	0.751
4	10000	0.683

Find out NPV. **(10 Marks)**

2 a. What is IRR? **(03 Marks)**

b. Briefly enumerate on objectives of Financial Management. **(07 Marks)**

c. The capital structure of Bombay traders Ltd as on 31.3.21 is as follows :

	Rs in Crores
Equity capital 100 lakh equity shares of Rs 10 each	10
Retained Earnings	2
14% debentures	3

For the year ended 31.3.21, the company has paid a equity dividend at 20% and the growth rate is 5% every year. The equity shares are traded at Rs 80 per share in the stock exchange. Tax rate applicable to the company is 40%. Calculate Current WACC. **(10 Marks)**

3 a. What is Gross Working Capital? **(03 Marks)**

b. The following information is available in respect of a product :

Units sold	180000
Units sales price	Rs 5
Fixed cost	Rs 240000
Variable cost per unit	Re 1
Tax rate	50%
10% of debt capital of	Rs 600000

Calculate Operating leverage, Financial leverage and Combined leverage. **(07 Marks)**

c. Discuss the factors affecting working capital requirements. **(10 Marks)**

4 a. What is Interim dividend? **(03 Marks)**

b. Prepare all estimate of working capital requirement from the following data of a trading concern :

i) Projected annual sales – 80,000 units.
ii) Selling price – Rs 8 per unit.
iii) Percentage of profit – 20%.
iv) Average credit period allowed to debtors – 10 weeks.
v) Average credit period allowed by suppliers – 8 weeks.
vi) Average stock holding in terms of sales requirement – 10 weeks.
vii) Allow 20% for contingencies. **(07 Marks)**

c. Discuss various factors affecting the Dividend Policy of an Organisation. **(10 Marks)**

5 a. What is an Operating Cycle? **(03 Marks)**

b. An Industry is considering investing in a project which cost Rs 12,00,000. The cash flows are Rs 2,40,000 , Rs 2,80,000 , Rs 3,60,000 , Rs 4,00,000 and Rs 5,00,000. Calculate Pay back period. **(07 Marks)**

c. Briefly enumerate various long term sources of capital. **(10 Marks)**

6 a. What is Behavioral Finance? **(03 Marks)**

b. Calculate the future value of annuity of Rs 5000 deposited at the end of each year @ 6% for a period of 5 years. **(07 Marks)**

c. Suppose a firm borrows 10,00,000 at an interest rate of 15% and the loan is to be repaid in 5 equal installments payable at the end of each of next 5 years. Show the loan amortization schedule for the above information. **(10 Marks)**

7 a. Sanvi Ltd had taken a free hold land for an annual rent of Rs 1200. Find out the present value of free hold land which is enjoyable in perpetuity if the interest rate is 8% p.a. **(03 Marks)**

b. ABC Ltd issues 12% debentures of Rs 6,00,000. The tax rate applicable is 50%. Compute cost of debt i) at par ii) at 10% premium iii) at 10% discount. **(07 Marks)**

c. The following is the information of a manufacturing Company obtained from the books. Compute the operating cycle in days and the amount of working capital required.
Period covered 365 days.
Average period of credit allowed by creditors 20 days. **(10 Marks)**

Particulars	Rs
Average total debtors outstanding	50,000
Raw materials consumption	4,50,000
Total production cost	10,00,000
Total cost of sales	12,00,000
Sales	20,00,000
Value of average stock maintained :	
Raw materials stock	35,000
Work in progress	40,000
Finished goods	25,000

8 **Compulsory :**

Madan Lal Dhingra is determining the cash flow for a project involving replacement of an old machine by a new machine. The old machine bought a few years ago has a book value of Rs 400000 and it can be sold to realize a post tax salvage value of Rs 300000. It has a remaining life of five years after which its net salvage value is expected to be Rs 160000. It is being depreciated annually at a rate of 25% under the written down value method. The working capital required for the old machine is Rs 400000. The new machine costs 16,00,000.it is expected to fetch a net salvage of Rs 5,00,000. After 5 years when it will be no longer be required. The depreciation rate applicable to it is 25% under WDV method. The net working capital required for the new machine is Rs 5,00,000. Installation charges of the new machine is Rs 100,000. The new machine is expected to bring a savings of Rs 3,00,000 annually in manufacturing costs (other then depreciation). The tax rate applicable to the firm is 40%.
As a Financial Advisor of the company, you should suggest whether the old machine be replaced by the new machine. (Assuming cost of capital to be 10%). **(20 Marks)**

Year	1	2	3	4	5
PVIF	0.909	0.826	0.751	0.683	0.621

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