CBCS Scheme

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

16MBA22

# Second Semester MBA Degree Examination, June/July 2017
## 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. Interest factor tables are permitted.***



1 a. What are the steps involved in capital budgeting process? **(02 Marks)**

b. From the following information extracted from the books of a manufacturing concern, compute operating cycle and cash cycle. **(06 Marks)**

| | |
|---|---|
| Period covered | 365 days |
| Avg. period of credit allowed by supplier | 16 days |
| Avg. of total debtors outstanding (₹) | 480 |
| Raw material consumption (₹) | 4400 |
| Total production cost (₹) | 10,000 |
| Total cost of goods sold for the year | 10,500 |
| Sales | 16,000 |
| Value of Avg. stock maintained : | |
| Raw – material | 320 |
| WIP | 350 |
| Finished goods | 260 |

c. ABC Ltd., wishes to raise additional finance of ₹ 10 lakh for meeting its investment plans. It has ₹ 2,10,000 in the form of retained earnings available for investment purposes. The following are the further details :

* Debt – equity mix , 30 : 70.
* Cost of debt upto ₹ 180,000, 10% (before tax), beyond ₹ 180,000 , 12% before tax.
* Earnings per share ₹ 4.
* Dividend payout, 50% of earnings.
* Expected growth rate in dividend, 10%.
* Current market price per share ₹ 44.
* Tax rate 35%.

You are required :

i) To determine the pattern for raising the additional finance, assuming the firm intends to maintain existing debt/equity mix.

ii) To determine the post tax cost of additional debt.

iii) To determine the cost of equity and cost of retained earnings.

iv) Compute WACC after tax cost of additional finance. **(08 Marks)**

2 a. What is Hybrid financing? **(02 Marks)**

b. What are the factors influencing on dividend policy? **(06 Marks)**

c. Mr. Sharma borrows ₹ 160,000 for a musical system at a monthly interest of 2.5%. The loan is to be repaid in 12 equal monthly installments. Prepare loan amortization schedule for Mr. Sharma. **(08 Marks)**

3 a. If you have invested ₹ 12000 @ the rate of 8% interest, what will be the time required to double this money according to rule 72 and rule 69? **(02 Marks)**

b. Briefly explain the role of finance manager. **(06 Marks)**

c. Calculate Payback period and Benefit Cost Ratio (BCR).

i) Initial Investment ₹ 1500000.

ii) Life of project 5 years.

iii) Profit before depreciation & tax is as follows :

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Amount | 50,000 | 45,000 | 32,000 | 20,000 | 20,000 |

iv) Tax rate is 45% and discount rate is 10%. **(08 Marks)**

4 a. What is Venture capital? **(02 Marks)**

b. Ms. Sujatha deposits ₹ 5000 @ the end of the every year for 6 years @ 6% interest. Determine how much money will be there at the end of 6$^{th}$ year in the hands of Sujatha? **(06 Marks)**

c. After conducting a survey that cost ₹ 200000. Keerthan Industries Ltd., decided to undertake a project for putting a new product in the market. The company's cut off rate is 12%. It was estimated that the project would have a life of 5 years. The project would cost ₹ 40,00,000 in plant and machinery in addition to working capital of ₹ 10,00,000, which will recover in full when projects 5 years life is over. The scrap value of plant and machinery at the end of 5 years was estimated at ₹ 500000. Earnings after depreciation and before tax were estimated as follows : **(08 Marks)**

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| EAD & BT | 3,00,000 | 8,00,000 | 1,30,000 | 5,00,000 | 4,00,000 |

Ascertain the net present value of the project and suggest for Keerthan Industries Ltd.

5 a. What are the assumptions of CAPM model? **(02 Marks)**

b. Briefly explain the sources of finance. **(06 Marks)**

c. While preparing a project report on behalf of a client, you have collected the following facts. Estimate the net working capital required for that project. Add 10% to compute figures to allow contingencies.

| Particulars | Amt. per unit |
|---|---|
| Estimated cost per unit of production | |
| Raw – material | ₹ 80 |
| Direct Labour | ₹ 30 |
| Overhead [Exclusive depreciation ₹ 10/PU] | ₹ 60 |
| Total | ₹ 170 |

Additional Information :

- Selling price ₹ 200 per unit.
- Level of activity 1,04,000 units of production per annum.
- Raw material in stock , average 4 weeks.
- Work – in progress (50% completion stage in respect to conversion costs and 100% completion in respect of material). Avg. 2 weeks.
- Finished goods in stock, Avg. 4 weeks.
- Credit allowed by suppliers, Avg. 4 weeks.
- Credit allowed to debtors, Avg. 8 weeks.
- Lag in payment of wages, Avg. 1.5 weeks.
- Cash at bank is expected to be ₹ 25000.

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and O/h accure similarly. All sales on credit basis. **(08 Marks)**

6 a. What is Optimal Capital structure? **(02 Marks)**

b. Consider the following information to risk free rate of securities and market return of securities of 'A' Ltd., during the last 6 years. **(06 Marks)**

| Year | $R_f$ | $R_m$ | $R_j$ (Security Return) |
|---|---|---|---|
| 1 | 0.06 | 0.14 | 0.08 |
| 2 | 0.05 | 0.03 | 0.11 |
| 3 | 0.07 | 0.21 | 0.29 |
| 4 | 0.08 | 0.26 | 0.25 |
| 5 | 0.09 | 0.03 | 0.107 |
| 6 | 0.07 | 0.11 | 0.104 |

On the basis of the above information you are required to determine cost of equity capital using CAPM approach.

c. The selected financial data for A, B and C companies for the current year 31st March are as follows :

| | A | B | C |
|---|---|---|---|
| Variable expenses as a % of sales | 66.67% | 75% | 50% |
| Interest expenses (₹) | 200 | 300 | 1000 |
| Operating leverage | 5:1 | 6:1 | 2:1 |
| Financial leverage | 3:1 | 4:1 | 2:1 |
| Income tax rate | 35% | 35% | 35% |

Prepare income statement for A, B and C companies. **(08 Marks)**

7 a. What is Marginal cost of capital? **(02 Marks)**

b. What are the factors influencing on working capital? **(06 Marks)**

c. ABC company is currently on ordinary share capital of ₹ 2500000 consisting of 25000 shares of ₹ 100 each. The management is planning to raise another ₹ 20,00,000 to finance for an expansion programme. The options are

i) Entirely through ordinary shares.

ii) ₹ 10 lakh through ordinary shares & ₹ 10 lakh through debt @ 8% p.a.

iii) ₹ 5 lakh through ordinary shares & ₹ 15 lakh thorugh debt @ 9% p.a

iv) ₹ 10 lakh through ordinary shares & ₹ 10 lakh through preference share with 5% dividend.

The Company's expected EBIT will be ₹ 8,00,000. Assuming tax rate is 50%. Determine EPS and comment which alternative is best? Why? **(08 Marks)**

8 A Company is considering an investment proposal to install a new milling control at a cost of ₹ 50,000. The facility has a life expectancy of 5 years without any salvage value. The firm uses SLM of depreciation and the same is used for tax purposes. The tax rate is assumed to be 35%. The estimated cash flows before depreciation and tax for investment proposal are as under.

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| CFBD & BT | 10,000 | 10,692 | 12,769 | 13,462 | 20,385 |

Compute :

a. Pay – back period (PBP).

b. Average Rate of Return (ARR).

c. NPV @ 10% discount rate.

d. Profit ability index @ 10% discount rate. **(16 Marks)**

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