CBCS Scheme

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16/17MBA22

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

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.

1 a. Name any two aims of finance function. **(02 Marks)**
b. State the different kinds of Capital budgeting proposals. **(06 Marks)**
c. Briefly explain the role of Finance Manager. **(08 Marks)**

2 a. Name any two assumptions of CAPM model. **(02 Marks)**
b. What sum will be getting if Rs 5000 in 6 years time at 8.5% per annum invested. Calculate the amount by using yearly, half yearly and quarterly interest rates. **(06 Marks)**
c. The Sanika Ltd., has the following capital structure

Common shares (20,000 shares)	40,00,000
10% preference shares	10,00,000
14% debentures	30,00,000
Total	80,00,000

The share of the company sells for Rs 20. It is expected that the company will pay next year a dividend of Rs 2 per share which will grow @ 7%. Assume 50% tax rate. Compute the weighted average cost of capital based on the existing capital structure. **(08 Marks)**

3 a. Twenty year 12.5% debenture of a firm are sold at a rate of Rs 75. The face value of each debenture is Rs 100 and the tax rate is 50%. You are required to compute the cost of debt capital. **(02 Marks)**
b. Briefly explain the steps for risk management. **(06 Marks)**
c. A firm whose cost of capital is 10% is considering two project X and Y each cost Rs 1,00,000 respectively. Following are the cash inflows : **(08 Marks)**

Year	Project X	Project Y
1	20,000	45,000
2	30,000	40,000
3	40,000	30,000
4	50,000	10,000
5	60,000	8,000

Compute the NPV@ 10% and IRR for two projects separately, Project X by 20 and 29% and Project Y by 9 and 15%.

4 a. Name any two features of Pay back period. (02 Marks)

b. From the following data, compute the duration of the operating cycle for each of the two years : (06 Marks)

	Year 1	Year 2
Stock of raw materials	20,000	27,000
Work in progress	14,000	18,000
Finished goods	21,000	24,000
Purchases	96,000	1,35,000
Cost of goods sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

Assume 360 days per year for computational purposes.

c. The data relating to two companies are as given below :

	Co. A	Co. B
Capital	6,00,000	3,50,000
12% debenture	4,00,000	6,50,000
Output (units) P/A	60,000	15,500
Selling price / Unit	Rs 30	Rs 250
Fixed cost	7,00,000	14,00,000
Variable cost	Rs 10	Rs 75

You are required to calculate the operating leverage, financial and combined leverage of two companies. Assume 50% Tax. (08 Marks)

5 a. What is Capital Structure? (02 Marks)

b. Aryan and Co. is considering the purchase of 2 machines. Each costing Rs 50,000. Cash inflows are expected to be as under. Calculate Discounted pay back period using 10% discount. (06 Marks)

Year	Machine X	Machine Y
1	15,000	5,000
2	20,000	15,000
3	25,000	20,000
4	15,000	30,000
5	10,000	20,000

c. YADU company has a capital of Rs 1,00,000 divided into shares of Rs 10 each. It has expansion plans requiring an investment of another Rs 50,000. The management is considering following alternatives for raising this amount.

* Issue of Rs 5000 shares of Rs 10 each.
* Issue of Rs 5000, 12% preference share of Rs 10 each.
* Issue of 10% debenture of Rs 50,000.

The company's present earnings before interest 4 tax (EBIT) are Rs 40,000 p.a. subject to tax @ 50%. You are required to calculate the effect of each of the above modes of financing on the EPS presuming.

1. EBIT continues to be the same even after expansion.
2. EBIT increases by Rs 10,000 after the expansion. (08 Marks)

6 a. What is Time value of money? (02 Marks)

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

c. Priyanka and Co. is considering the purchase of 2 machine each costing Rs 3,00,000. Cash inflows are expected to be as under (Rs in '000').

Year	1	2	3	4	5
Machine X	20	65	90	150	175
Machine Y	40	110	120	140	200

The discount factor is @ 10% are 0.909 , 0.826 , 0.751 , 0.683 , 0.621
Evaluate NPV , PI , PBP and DPBP for the two machine separately and suggest which machine is suitable. **(08 Marks)**

7 a. List any two problems of Excessive Working Capital. **(02 Marks)**
b. What are the factors influencing on working capital? Explain. **(06 Marks)**
c. Sridhar Company Ltd has the following financing mix. **(08 Marks)**

(Rs in lakh)

Equity capital (10 lakh share @ par value)	100
12% preference shares capital (10,000 share @ par value)	10
Retained earnings	120
14% Non – convertible debentures (70,000 debentures @ par value)	70
14% term loan	100
Total	400

The equity shares of the company are trading @ Rs 25. The next expected dividend per share is Rs 20 and the DPS is expected to grow at a rate of 8%. The preference shares are redeemable after 7 years at par and are currently quoted at Rs 75 per share on the stock exchange. The debentures are redeemable after 6 years at par and their current market price is Rs 90/share. The tax rate applicable to the firm is 50%. What is the WACC of the Co?

8 On 1st Jan 2017, the board of directors of Yadu Aryan Co. Ltd., wishes to know the amount of working capital that will be required to meet the program of activity they have planned for the year. The following information are available.

i) Issue and paid up capital Rs 2,00,000.
ii) 5% debentures Rs 50,000.
iii) Fixed assets values ar Rs 1,25,000 on 31/12/2017.
iv) Production during the previous year was 60,000 units. It is planned that the level of activity should be maintained during the current year.
v) The ratios of cost to selling price are Raw material 60% , Direct wages 10% and Overheads 20%.
vi) Raw materials are expected to remain in stores for an average of two months before these are issued for production.
vii) Each unit of production is expected to be in process for one month and is assumed to be consisting of 100% Raw materials, Direct wages and Overheads.
viii) Finished goods will stay in warehouse for approximately three months.
ix) Creditors allow credit for 2 months from the date of delivery of raw materials.
x) Credit allowed to debtors in 3 months from the date of dispatch.
xi) Selling price per unit is Rs 5.
xii) There is a regular production and sale cycle.

Prepare schedule of working capital requirement and Balance sheet. **(16 Marks)**

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