CBCS SCHEME

USN

22MBA22

Second Semester MBA Degree Examination, June/July 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.
3. Time value table is permitted.
4. M : Marks , L: Bloom's level , C: Course outcomes.

<table>
<tr><th></th><th></th><th></th><th>M</th><th>L</th><th>C</th></tr>
<tr><td>Q.1</td><td>a.</td><td>What do you mean by Financial Management?</td><td>3</td><td>L2</td><td>CO1</td></tr>
<tr><td></td><td>b.</td><td>An executive is about to retire at the age of 60, his employer has offered him two post retirement options.
i) 20,00,000 lump sum ii) 2,50,000 for 10 years.
Assuming 10% interest which is a better option.</td><td>7</td><td>L4</td><td>CO2</td></tr>
<tr><td></td><td>c.</td><td>XYZ Company borrows Rs 10,00,000 at the rate of interest 15% p.a. The loan is to be repaid 5 equal Annual instalments paid at the end of each year. Prepare Loan amortization Schedule.</td><td>10</td><td>L4</td><td>CO4</td></tr>
<tr><td>Q.2</td><td>a.</td><td>What is Time value of Money?</td><td>3</td><td>L2</td><td>CO1</td></tr>
<tr><td></td><td>b.</td><td>Discuss the factors determining working capital.</td><td>7</td><td>L3</td><td>CO2</td></tr>
<tr><td></td><td>c.</td><td>Explain in detail the Indian Financial System.</td><td>10</td><td>L4</td><td>CO4</td></tr>
<tr><td>Q.3</td><td>a.</td><td>What is CAPM?</td><td>3</td><td>L2</td><td>CO1</td></tr>
<tr><td></td><td>b.</td><td>Pentagon Ltd., is evaluating a project that has the following cash flow stream associated with it.
<table>
<tr><td>Year</td><td>0</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td></tr>
<tr><td>Cash flow (Rs in millions)</td><td>- 120</td><td>- 80</td><td>20</td><td>60</td><td>80</td><td>100</td><td>120</td></tr>
</table>
The cost of capital is 15%. You are required to calculate the Modified Internal Rate of Return (MIRR).</td><td>7</td><td>L5</td><td>CO3</td></tr>
<tr><td></td><td>c.</td><td>Discuss various factors affecting the dividend policy of an organization.</td><td>10</td><td>L4</td><td>CO4</td></tr>
<tr><td>Q.4</td><td>a.</td><td>What is an Operating Cycle?</td><td>3</td><td>L2</td><td>CO1</td></tr>
<tr><td></td><td>b.</td><td>The following information is available in respect of a product :
<table>
<tr><td>Units sold</td><td>: 1,80,000</td></tr>
<tr><td>Unit sales price</td><td>: Rs 5</td></tr>
<tr><td>Fixed cost</td><td>: Rs 2,40,000</td></tr>
<tr><td>Variable cost per unit</td><td>: Re 1</td></tr>
<tr><td>Tax rate</td><td>: 50%</td></tr>
<tr><td>10% Debt capital</td><td>: Rs 6,00,000</td></tr>
</table>
Calculate Operating Leverage , Financial and Combined Leverage.</td><td>7</td><td>L3</td><td>CO2</td></tr>
</table>

c. A Company is considering an investment proposal to install new milling controls at a cost of Rs 50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows :

Year	1	2	3	4	5
CFBT (Rs)	10,000	10,692	12,769	13,462	20,385

Compute the following : i) Pay back period
ii) Accounting Rate of Return iii) NPV at 10% discount rate.

10 L5 CO3

Q.5 a. What is Financial Engineering?

3 L2 CO1

b. A Company has 10% perpetual Debtor Irredeemable debt of Rs 1,00,000. The tax rate is 35%. Determine the cost of capital (before tax and after tax) assuming the debt is issued at i) par ii) 10% discount
iii) 10% premium.

7 L3 CO2

c. From the following data, compute the duration of the operating cycle for each of the two years :

Particulars	Year 1	Year 2
Stock of Raw Materials	20,000	27,000
WIP	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.

10 L4 CO4

Q.6 a. What is IRR?

3 L2 CO1

b. Briefly explain the emerging role of Finance Manager.

7 L3 CO2

c. A Company has on its books the following amounts and specific costs of each type of capital :

Type of capital	Book value	Market value	Specific cost (%)
Debt	4,00,000	3,90,000	5
Preference	1,00,000	1,10,000	8
Equity	6,00,000	12,00,000	15
Retained Earnings	2,00,000		13
	13,00,000	16,90,000	

Determine the weighted average cost of capital using i) Book value weight ii) Market value weights.
How are they different? Can you think of a situation where the weighted average cost of capital would be the same using either of the weights?

10 L4 CO4

Q.7	**a.**	What do you mean by Capital Budgeting?	**3**	**L2**	**CO1**
	b.	Explain the types of derivatives.	**7**	**L3**	**CO2**
	c.	India Ltd., is capitalized with Rs 10,00,000 divided into 1,00,000 equity shares of Rs 10 each. The management desires to raise another Rs 10,00,000 to finance a major expansion programmes. There are 4 possible financial plans. i) All equity shares ii) All debentures carrying 8% interest iii) Rs 5,00,000 in equity shares and Rs 5,00,000 in debentures carrying 10% interest. iv) Rs 5,00,000 in equity shares and Rs 5,00,000 in 10% preference shares. You are required to calculate EPS if the EBIT of Rs 4,80,000.	**10**	**L4**	**CO4**

Q.8 **CASE STUDY – (Compulsory)** **20** **L4** **CO4**

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 your computed figure to allow contingencies :

Particulars	Per Unit (Rs)
Estimated cost per unit of production :	
Raw Materials	80.00
Direct Labour	30.00
Overheads (exclusive of Depreciation, Rs 10 per Unit)	60.00
Total cash cost	170.00
Profit	30.00
Selling price	200.00

Additional Information :

1) Level of activity, 1,04,000 units of production per annum.
2) Raw materials in stocks, average 4 weeks.
3) Work in progress (assume 50% completion stage in respect of conversion costs and 100% completion in respect to materials), average 2 weeks.
4) Finished goods in stock, average 4 weeks.
5) Credit allowed by suppliers 4 weeks.
6) Credit allowed to debtors, average 8 weeks.
7) Lag in payment of wages, average 1.5 weeks.
8) Cash at Banks is expected to be Rs 25,000.

You may assume that production is carried on evenly through out the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.

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