

USN

--	--	--	--	--	--	--	--	--	--



14MBA22

**Second Semester MBA Degree Examination, Aug./Sept.2020**  
**Financial Management**

Time: 3 hrs.

Max. Marks:100

**SECTION - A***Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 What is time value of Money? (03 Marks)
- 2 What is Money Market? (03 Marks)
- 3 What do you mean by Capital budgeting? (03 Marks)
- 4 A company is considering the purchase of a machinery costing Rs 36,000. The machine can reduce annual labour cost by Rs 6000. Calculate the payback period. (03 Marks)
- 5 What is operating cycle? (03 Marks)
- 6 What is optimum capital structure? (03 Marks)
- 7 Define financial engineering. (03 Marks)

**SECTION - B***Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 Explain the types of derivatives. (07 Marks)
- 2 Explain the factors influencing capital structure decisions. (07 Marks)
- 3 What are the principles of cash flow estimation? (07 Marks)
- 4 An investor deposits Rs 200 in a bank account for 5 years at 8% interest. Find out the amount which he will have in his account if interest is compounded.
  - i) Annually
  - ii) Semi – annually (6 month)
  - iii) Quarterly. (07 Marks)
- 5 A company issues Rs 10, 00,000, 10% redeemable debentures at a discount of 5%. The cost of floatation amounts to Rs 30,000. The debentures are redeemable after 5 years at par. Calculate after tax cost of debt assuming a tax rate of 50%. (07 Marks)
- 6 Calculate operating leverage, financial leverage and combined leverage from the following data
 

Sales (1,00,000 units)	Rs 2,00,000
Variable cost per units	Rs 0.70
Fixed cost	Rs 65,000
Interest charges	Rs 15,000

 (07 Marks)



- 7 The following information is available in respect of a trading firm. :
- On an average, debtors are collected after 15 days, inventories have an average holding period of 25 days and creditors' payment period on an average is 10 days.
  - The firm spends a total of Rs 40 lakh annually at a constant rate.
  - It can earn 10% on investment.
- For the above information, compute
- The cash cycle
  - Cash turn over and
  - Minimum amount of cash to be maintained to meet payments as they become due
- Savings by reducing the average inventory holding period by 10 days. (07 Marks)

### SECTION - C

*Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- Elucidate the factors influencing working capital requirements of a firm. (10 Marks)
- Discuss the various long term sources of funds. (10 Marks)
- "Wealth maximization objective is superior to profit maximization objective". Do you agree? (10 Marks)
- Discuss the dangers of excess working capital and inadequate working capital. (10 Marks)
- Chandra Ltd has a capital of 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 programme. There are four possible financial plans :
  - All equity shares.
  - All Debentures carrying 8% interest.
  - Rs 5,00,000 in equity shares and Rs 5,00,000 in debentures carrying 10% interest.
  - 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 is Rs 6,00,000. Assume tax rate 30%. (10 Marks)

- 6 A company has an investment opportunity costing Rs 40,000 with the following expected net cash inflows :

Year	1	2	3	4	5	6	7	8	9	10
Net cash inflows	7,000	7,000	7,000	7,000	7,000	8,000	10,000	15,000	10,000	4,000

Determine the NPV and IRR of the investment opportunity. The cost of capital of the company is 10%. (10 Marks)

- 7 If the discount/required rate is 10%, compute the present value of the cash flow streams detailed below :
- Rs 100 at the end of year 1 (one) ;
  - Rs 100 at the end of year 4 ;
  - Rs 100 at the end of i) year 3 and ii) year 5 and
  - Rs 100 for the next 10 years (for years 1 through 10).
- (10 Marks)



**SECTION - D**  
**CASE STUDY – [ Compulsory ]**

A company is currently operating at 60 percent level, producing 36,000 units of a product and proposes to increase in capacity utilization in the coming year by 33.33% over the existing level of production. The following data has been supplied.

Cost structure per unit		Rs
Raw Materials		80
Wages (variables)		40
Overheads (variables)		40
Fixed overheads		20
Profit		60
Selling price		240

Additional Information :

- a) Raw materials will remain in stores for 1 month before being issued for production. Materials will remain in process for further one month. Supplier grant 3 months credits to the company.
- b) Finished goods remain in stores for 1 month.
- c) Debtors are allowed credit for 2 month.
- d) Average time lag in payment of wages and overheads is 1 month and these expenses accrue evenly throughout the production cycle.
- e) Selling price is estimated to be increased by 10%.

You are required to prepare :

- 1) Projected profitability statement.
- 2) A statement showing working capital requirements at the new level assuming minimum cash balance of Rs 50,000. (20 Marks)

\* \* \* \* \*