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14MBA22

**Second Semester MBA Degree Examination, June/July 2016**  
**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 What is Dividend Policy? (03 Marks)
- 5 What do you mean by Behavioral finance? (03 Marks)
- 6 What is meant by Cost of Capital? (03 Marks)
- 7 What is Hybrid Financing? (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 Write a note on Capital market. (07 Marks)
- 5 Determine the following :
  - i) Future value of Rs 1,000 deposited in five years in a bank which earns interest 9.5% p.a compounded semi annually.
  - ii) Future value of an annuity of Rs 1000 P.M which deposited in a two year RD A/c at 9% P.a
  - iii) Present value of Rs 1000 receivable 10 years hence, assume a discount rate of 10%.
  - iv) Present value of an annuity of Rs 1000 P.a payable for a period of eight years. Interest rate is 9% P.a. (07 Marks)
- 6 ARC has currently equity capital consisting of 15,000 equity shares of Rs 100 each. The Management is planning to raise Rs 25,00,000 to finance a major program of expansion and is considering 3 alternative method of financing.
  - i) To issue 25,000 equity shares of Rs 100 each.
  - ii) To issue 25,000 8% debentures of Rs 100 each.
  - iii) To issue 25,000 8% preference shares of Rs 100 each.
 The Company's EBIT is Rs 8,00,000. Assume a corporate rate 50%, determine EPS in each alternative and comment on the results. (07 Marks)

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.  
2. Any revealing of identification, appeal to evaluator and/or equations written eg. 42+8 = 50, will be treated as malpractice.



- 7 Zenith Ltd has provided the following data :  
Profit and Loss Account data : Sales Rs 500 lacs, cost of goods sold Rs 360 lacs.

Balance sheet Data (Amount Rs in lacs).

Particulars	Beginning of 2014	End of 2014
Inventories	60	64
Accounts receivables	80	88
Accounts payables	40	46

What is the length of the operating cycle and cash cycle? Assume 360 days in a year for calculation. (07 Marks)

**SECTION - C**

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

- 1 Elucidate the factors influencing working capital requirements of a firm. (10 Marks)
- 2 Discuss the various long term sources of funds. (10 Marks)
- 3 “Wealth maximization objective is superior to profit maximization objective”. Do you agree? (10 Marks)
- 4 A firms after – tax cost of capital of the specific sources is as follows :  
 Cost of debt 8%, Cost of equity 17% , Cost of preference shares 14%. (10 Marks)

It has the following capital structure :

Debt capital	Rs 3,00,000
Preference capital	Rs 2,00,000
Equity capital	Rs 5,00,000

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 Total Rs 10,00,000  
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Firm wishes to raise Rs 5,00,000 for expansion of its plan. It estimates Rs 1,00,000 retained earnings and balance as : Long term debt Rs 3,00,000 and Preference capital Rs 1,00,000. Determine the cost of capital ( $K_0$ ) by using

- i) Historical weights and
  - ii) Marginal weights.
- 5 While preparing a project report on behalf of a client, you have collected the following facts :

Estimated cost per unit of production :	
Raw Materials	Rs 80.00
Direct labour	Rs 30.00
Overheads (Depreciation of Rs 20 per unit included)	Rs 70.00
Total cost	Rs 180.00
Add profit	Rs 20.00
Selling price	Rs 200.00

Additional Information :

- i) Production is 1.04,000 units per annum.
- ii) Raw materials are in stock for 30 days.
- iii) WIP period is 15 days ; assume 100% completion in respect of raw materials and 50% in respect of conversion costs.



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- iv) Finished goods are in stock for 30 days.
- v) Credit allowed by suppliers is 30 days.
- vi) Credit allowed by debtors is 60 days.
- vii) Lag in payment of overheads is 15 days.

Cash at bank is expected to be Rs 25,000. You may assume that production is carried evenly throughout the year (360 days) and wages accrue similarly. Estimate the net working capital required for that project and add 10% to your computed figure to allow for contingencies. (10 Marks)

- 6 Suppose a firm borrows Rs 10,00,000 at an interest rate of 15% p.a and the loan is to be repaid in five equal installments payable at the end of each of next five years.
- i) Determine Equated Annual installment.
  - ii) Prepare loan Amortization schedule. (10 Marks)
- 7 Calculate operating leverage, financial leverage and combined leverage for the firms. (10 Marks)

Particulars	Firm P	Firm Q	Firm R
Output (units)	3,00,000	75,000	5,00,000
Fixed cost Rs	3,50,000	7,00,000	75,000
Variable cost per unit	1.00	7.50	0.10
Interest expenses Rs	25,000	40,000	-
Selling price per unit Rs	3.00	25.00	0.50

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

ABC Ltd is considering a proposal of installing drying equipment. The equipment would involve a cash outlay of Rs 5,00,000 and working capital of Rs 80,000. The expected life of the equipment is 6 years without any salvage value, but working capital can be realized at its book value. The firms opportunist cost of capital is 12%. Assume straight line method for charging depreciation and a tax rate of 30%. The estimated "Cash Flows before Depreciations and Tax are given below :

Year	1	2	3	4	5	6
CFBDT	210	180	160	150	120	100

Analyse the case under Net present value method and suggest should the proposal be accepted? (20 Marks)

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