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Second Semester MBA Degree Examination, Dec.2019/Jan.2020 Financial Management

Time: 3 hrs.

Max. Marks:80

- Note: 1. Answer any FOUR full questions from Q.No.1 to Q.No.7.
2. Question No. 8 is compulsory.
3. Use of PV tables is permitted.**

- 1
 - a. State the difference between present and future value. (02 Marks)
 - b. Explain the factors affecting capital budgeting decision. (06 Marks)
 - c. Beta Ltd has 10% perpetual debentures of Rs.1,00,000. The tax rate is 35%. Determine the cost of debenture capital assuming the debentures are issued at (i) par, (ii) 10% discount (iii) 10% premium. (08 Marks)

- 2
 - a. Mention sweat equity shares in India. (02 Marks)
 - b. Write a note on lease financing. (06 Marks)
 - c. As a financial analyst of a large electronic company, you are required to determine the weighted average cost of capital of the company using (i) Book value weights (ii) Market value weights. The company's present book value capital structure is

Debentures (Rs.100 per debenture)	8,00,000
Preference shares (Rs.100 per share)	2,00,000
Equity shares (Rs.10 per share)	10,00,000
	20,00,000

All these securities are traded in the capital markets. Recent prices are:

- (i) Debentures Rs.110 per debenture
- (ii) Preference shares Rs.120 per share
- (iii) Equity shares Rs.22 per share.

Anticipated external financing opportunities are:

- (i) Rs.100 per debenture redeemable at par; 10 years maturity, 11% coupon rate, 4% floatation cost, sale price Rs.100.
- (ii) Rs.100 per preference redeemable at par; 10 years maturity, 12% dividend rate, 5% floatation costs, sale price Rs.100
- (iii) Equity shares: Rs.2 per share floatation costs, sale price Rs.22.

In addition, the dividend expected on the equity share at the end of the year is Rs.2 per share; the anticipated growth rate in dividends is 7% and the firm has the practice of paying all its earnings in the form of dividends. The corporate tax rate is 35%. (08 Marks)

- 3
 - a. What is Wealth maximization? (02 Marks)
 - b. Explain the three different approaches of financing the working capital. (06 Marks)
 - c. The expected cash flow of ABC is as follows:

Year	0	1	2	3	4	5
Cash flow Rs.	1,00,000	20,000	30,000	40,000	50,000	30,000

The cost of capital is 12%, calculate the following:

- (i) Net Present Value
- (ii) Benefit Cost Ratio
- (iii) Internal Rate of Return

(08 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.



- 4 a. What is hybrid financing? (02 Marks)
 b. Explain the organization of finance function. (06 Marks)
 c. The following data is extracted from the financial statements of selected companies for the financial year ended 2015. Analyse the working capital policy of the companies.

Financial data of selected companies (Rs. in crore)

Particulars	Hero Moto Corp.	Baja Auto	TVS Motors
Current liabilities	3883	4477	2244
Current assets	5281	9526	2028
Fixed assets	5240	6036	2576
EBIT	3494	4432	484
Sales	27,585	21,612	10,098

(08 Marks)

- 5 a. State any three difference between debt and equity. (02 Marks)
 b. Explain the emerging role of financial manager in India. (06 Marks)
 c. Alpha Ltd has following details:

Sources of Finance	Book Value Rs.	Market Value Rs.	Specific Cost %
Debt	4,00,000	3,80,000	5
Preference	1,00,000	1,10,000	8
Retained earnings	6,00,000	-	15
Equity capital	2,00,000	12,00,000	13

Determine the weighted average cost of capital using (i) Book value weights (ii) Market value weight. 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? (08 Marks)

- 6 a. What do you mean by cost of capital? (02 Marks)
 b. An investor deposits Rs.100 in a bank account for 5 years at 8% interest. Find out the amount which he will have in its account if interest rate compounded will have in its account if interest rate compounded (i) Annually (ii) Semiannually. (06 Marks)
 c. Explain the basic reasons why profit maximizations fails to be consistent with wealth maximization. (08 Marks)

- 7 a. What is internal rate of return? (02 Marks)
 b. Explain the different types of Investment Equalization Techniques. (06 Marks)
 c. Selected financial data for company A and B for the year ended 31st March are as follows:

Particulars	Company A	Company B
Variable expenses as a percentage of sales	66.67	75
Interest expenses	200	300
Degree of operating leverage	5	6
Degree as financial leverage	3	4
Income Tax Rate	0.35	0.35

- (i) Prepare income statements for A and B companies.
 (ii) Comment on the financial position and structure of these companies. (08 Marks)

**8 Case Study: Compulsory**

Calculate the amount of working capital requirement for SRCC Ltd from the following information:

Particulars	Price per Unit (Rs.)
Raw materials	160
Direct labour	60
Overheads	120
Total cost	340
Profit	60
Selling price	400

The duration at various stages of the operating cycle is expected to be as follows:

- (i) Raw materials and finished goods are held in stock on an average for one month.
- (ii) Materials are in process on an average for half a month.
- (iii) Credit allowed by suppliers is one month and credit allowed to debtors is two months.
- (iv) Time lag in payment of wages is 1 week, overhead expenses in one month.
- (v) One fourth of the sales are made on cash basis.
- (vi) Minimum cash to be maintained is Rs.50,000.
- (vii) The expected level of production is 1,04,000 units for a year of 52 weeks.

You may assume that production is carried on evenly throughout the year and a time period of four weeks is equivalent to a month.

(16 Marks)
