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## Second Semester MBA Degree Examination, June/July 2019 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. Present values table should be allowed.**

- 1** a. What is hybrid financing? (02 Marks)  
 b. The relevant financial information for 'X' Ltd for the year ended 31/3/2017 is given below:

P & L A/C		Balance Sheet		
	Amount		1/4 /2017	31/3/2017
Sales	80	Inventory	9	12
Cost of goods sold	56	A/C receivables	12	16
		A/C payable	7	10

What is the length of the operating cycle and cash cycle? Assume 365 days in a year.

(06 Marks)

- c. SLS Trading company prepares to increase the production of the company. They are willing to purchase a new machine. There are 3 types in the market. The following details are available.

Particulars	Type - P	Type - Q	Type - R
Cost of machine	17500	12500	9000
Estimated savings in scrap	400	750	250
Wages per operative	250	300	250
Cost of indirect material	-	400	-
Expected savings in indirect material	100	-	250
Additional cost of maintenance	750	550	500
Additional cost of suspension	-	800	-
Operative not required (number)	11	20	9
Estimated life of machine	10	6	5

Taxation is 50% of the profit. you are required to advice the management which type of the machine should be purchased under PBP method and post PBP.

(08 Marks)

- 2** a. What are the assumptions of CAPM model? (02 Marks)  
 b. Briefly explain the determinants of capital structure? (06 Marks)  
 c. Keerthan Ltd., wishes to raise additional finance of Rs.10 lakh for meeting its investment plans. It has Rs. 2,10,000 in the form of retained earnings available for investment purposes.

The following are the further details:

- Debt-equity mix 30 : 70
- Cost of debt upto Rs.1,80,000, 10% (before tax) beyond Rs. 1,80,000, 12% (Before tax)
- Earning per share Rs.4
- Dividend payout 50% of earnings.
- Expected growth rate in dividend 10%
- Current market price per share Rs.44
- Tax rate 35%

You are required

- (i) To determine the pattern for raising the additional finance, assuming the firm intends to maintain existing debt/equity mix.
- (ii) To determine the post tax cost of additional debt.
- (iii) to determine the cost of retained earning and cost of equity.
- (iv) Compute the WACC of additional finance. (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.

- 3 a. What are the steps involved in capital budgeting process? (02 Marks)  
 b. MJ Ltd is evaluating a project which involves initial investment of Rs.1,20,000. After tax cash flows from the project are given below:

Year	1	2	3	4	5	6
Cash flow	85000	96500	132600	216000	124000	98500

What is the MIRR if the cash flows are reinvested @ 12%. (06 Marks)

- c. Mr. Danvik borrows Rs.1,60,000 for a musical system @ a monthly interest of 2.5%. The loan is to be repaid in 12 equal monthly installment payable @ the end of the month. Prepare loan amortization schedule for Mr. Danvik. (08 Marks)
- 4 a. If the interest rate is 11%, what is the doubling period as per rule 72 and the rule of 69? (02 Marks)  
 b. Explain the changing role of Finance Managers in India. (06 Marks)  
 c. Calculate the following:  
 (i) Compute the future value of an investment of Rs.12000 compounded semi-annually and quarterly for 8 years @ 12%.  
 (ii) A company has issued debentures of Rs.60 lakhs to be repaid after 8 years. How much the company should invest in a sinking fund earning 13% in order to be able to repay debenture.  
 (iii) Mr. Vishal deposits Rs.8500 at the beginning of each year for 5 years in a bank and earn return an investment. Determine how much money he will have at the end of 5<sup>th</sup> year. (08 Marks)
- 5 a. What is optimal capital structure? (02 Marks)  
 b. Mr. Keerthan is the winner of the competition is offered any one of the following 4 prizes. Which are should he choose if he expects 12% return.  
 (i) Rs. 100000 today.  
 (ii) Rs.200000 after 5 years  
 (iii) Rs.25000 for 8 years.  
 (iv) Rs.14600 every year forever. (06 Marks)  
 c. A proforma cost-sheet of a XYZ company provides the following particulars:

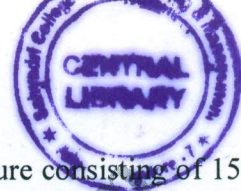
Element of cost	Amount per unit
Material	80
Direct labour	30
Overheads	60
Total cost	170
Profit	30
Selling price	200

Additional information :

- (i) Raw-materials are in stock on an average for 1 month.  
 (ii) Raw-materials are in process (Completion stage 50%) an average  $\frac{1}{2}$  month.  
 (iii) Finished goods are in stock on an average for 1 month.  
 (iv) Credit allowed by suppliers is 1 month.  
 (v) Lag in payment of wages 1 and  $\frac{1}{2}$  weeks.  
 (vi)  $\frac{1}{4}$  of the output sold against cash.  
 (vii) Lag in payment of overhead 1 month.  
 (viii) Cash in hand and bank is expected to be Rs.25000.  
 (ix) Credit allowed to customer 2 months.

You are required to prepare a statement showing the working capital needed to finance level of activity of 1,04,000 units of production.

You may assumed that production is carried an evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month. (08 Marks)



- 6 a. What do you mean by operating cycle? (02 Marks)
- b. PQR Ltd has currently on an all equity capital structure consisting of 15000 equity shares of Rs.100 each. The management is planning to raise another Rs.25 lakh to finance a major expansion programme and is considering 3 alternatives method of finance.
- (i) To issue 25000 equity shares of Rs.100 each.
  - (ii) To issue 25000, 8% debentures of Rs. 100 each.
  - (iii) To issue 25000, 8% preference shares of Rs.100 each.

The company expected EBIT will be Rs.8 lakh. Assuming a corporate tax rate of 45%.

Determine the EPS of each of the financing plan.

(06 Marks)

- c. Briefly explain the different sources of finance.

(08 Marks)

- 7 a. Mention the different forms of dividend? (02 Marks)
- b. Consider the following information to risk free rate of securities and market return of securities of Anand Ltd., during last 6 years.

Year	R <sub>f</sub>	R <sub>m</sub>	R <sub>j</sub> (Security return)
1	0.06	0.14	0.08
2	0.05	0.03	0.11
3	0.07	0.21	0.29
4	0.08	0.26	0.25
5	0.09	0.03	0.107
6	0.07	0.11	0.104

On the basis of the above information, you are required to determine cost of equity capital using CAPM approach. (06 Marks)

- c. From the following prepare income statements of A, B and C. Briefly comment on each firm's performance.

Particulars	Firm A	Firm B	Firm C
Financial leverage	3 : 1	4 : 1	2 : 1
Interest	200	300	1000
Operating leverage	4 : 1	5 : 1	3 : 1
Variable cost as a % of sales	66.67%	75%	50%
Income tax rate	45%	45%	45%

(08 Marks)

- 8 After conducting a survey that cost Rs.200000, SLS industries Ltd. decided to underforce a project for putting a new product in the market. The Co's cut off rate is 12%. It was estimated that the project would have a life of 5 years. The project would cost Rs. 40 lakhs in plant and machinery in addition to working capital of Rs.10 lakh, which will recover in full when projects 5 years life is over. The scrap value of P and M at the end of 5 years was estimated at Rs.500000. After providing depreciation an SLM basis, profit after tax were estimated as follow:

Year	1	2	3	4	5
PAT	300000	800000	130000	500000	400000

Ascertain the NPV of the project and suggests LLS the accepting decision of the project.

(16 Marks)

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