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Second Semester MBA Degree Examination, June/July 2017 Financial Management

Time: 3 hrs.

Max. Marks:80

- Note: 1. Answer any Four questions from Q.No. 1 to Q.No. 7.
2. Question No. 8 is compulsory.
3. Interest factor tables are permitted.**

- 1 a. What are the steps involved in capital budgeting process? (02 Marks)
b. From the following information extracted from the books of a manufacturing concern, compute operating cycle and cash cycle. (06 Marks)

Period covered	365 days
Avg. period of credit allowed by supplier	16 days
Avg. of total debtors outstanding (₹)	480
Raw material consumption (₹)	4400
Total production cost (₹)	10,000
Total cost of goods sold for the year	10,500
Sales	16,000
<u>Value of Avg. stock maintained :</u>	
Raw – material	320
WIP	350
Finished goods	260

- c. ABC Ltd., wishes to raise additional finance of ₹ 10 lakh for meeting its investment plans. It has ₹ 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 ₹ 180,000, 10% (before tax), beyond ₹ 180,000 , 12% before tax.
 - * Earnings per share ₹ 4.
 - * Dividend payout, 50% of earnings.
 - * Expected growth rate in dividend, 10%.
 - * Current market price per share ₹ 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 equity and cost of retained earnings.
 - iv) Compute WACC after tax cost of additional finance. (08 Marks)

- 2 a. What is Hybrid financing? (02 Marks)
b. What are the factors influencing on dividend policy? (06 Marks)
c. Mr. Sharma borrows ₹ 160,000 for a musical system at a monthly interest of 2.5%. The loan is to be repaid in 12 equal monthly installments. Prepare loan amortization schedule for Mr. Sharma. (08 Marks)

- 3 a. If you have invested ₹ 12000 @ the rate of 8% interest, what will be the time required to double this money according to rule 72 and rule 69? (02 Marks)
- b. Briefly explain the role of finance manager. (06 Marks)
- c. Calculate Payback period and Benefit Cost Ratio (BCR).

- i) Initial Investment ₹ 1500000.
ii) Life of project 5 years.
iii) Profit before depreciation & tax is as follows :

Year	1	2	3	4	5
Amount	50,000	45,000	32,000	20,000	20,000

- iv) Tax rate is 45% and discount rate is 10%. (08 Marks)

- 4 a. What is Venture capital? (02 Marks)
- b. Ms. Sujatha deposits ₹ 5000 @ the end of the every year for 6 years @ 6% interest. Determine how much money will be there at the end of 6th year in the hands of Sujatha? (06 Marks)

- c. After conducting a survey that cost ₹ 200000. Keerthan Industries Ltd., decided to undertake a project for putting a new product in the market. The company's cut off rate is 12%. It was estimated that the project would have a life of 5 years. The project would cost ₹ 40,00,000 in plant and machinery in addition to working capital of ₹ 10,00,000, which will recover in full when projects 5 years life is over. The scrap value of plant and machinery at the end of 5 years was estimated at ₹ 500000. Earnings after depreciation and before tax were estimated as follows : (08 Marks)

Year	1	2	3	4	5
EAD & BT	3,00,000	8,00,000	1,30,000	5,00,000	4,00,000

Ascertain the net present value of the project and suggest for Keerthan Industries Ltd.

- 5 a. What are the assumptions of CAPM model? (02 Marks)
- b. Briefly explain the sources of finance. (06 Marks)
- c. 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 compute figures to allow contingencies.

Particulars	Amt. per unit
Estimated cost per unit of production	
Raw – material	₹ 80
Direct Labour	₹ 30
Overhead [Exclusive depreciation ₹ 10/PU]	₹ 60
Total	₹ 170

Additional Information :

- Selling price ₹ 200 per unit.
- Level of activity 1,04,000 units of production per annum.
- Raw material in stock , average 4 weeks.
- Work – in progress (50% completion stage in respect to conversion costs and 100% completion in respect of material), Avg. 2 weeks.
- Finished goods in stock, Avg. 4 weeks.
- Credit allowed by suppliers, Avg. 4 weeks.
- Credit allowed to debtors, Avg. 8 weeks.
- Lag in payment of wages, Avg. 1.5 weeks.
- Cash at bank is expected to be ₹ 25000.

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and O/h accrue similarly. All sales on credit basis. (08 Marks)



- 6 a. What is Optimal Capital structure? (02 Marks)
b. Consider the following information to risk free rate of securities and market return of securities of 'A' Ltd., during the last 6 years. (06 Marks)

Year	R _f	R _m	R _j (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.

- c. The selected financial data for A, B and C companies for the current year 31st March are as follows :

	A	B	C
Variable expenses as a % of sales	66.67%	75%	50%
Interest expenses (₹)	200	300	1000
Operating leverage	5:1	6:1	2:1
Financial leverage	3:1	4:1	2:1
Income tax rate	35%	35%	35%

Prepare income statement for A, B and C companies.

(08 Marks)

- 7 a. What is Marginal cost of capital? (02 Marks)
b. What are the factors influencing on working capital? (06 Marks)
c. ABC company is currently on ordinary share capital of ₹ 2500000 consisting of 25000 shares of ₹ 100 each. The management is planning to raise another ₹ 20,00,000 to finance for an expansion programme. The options are
i) Entirely through ordinary shares.
ii) ₹ 10 lakh through ordinary shares & ₹ 10 lakh through debt @ 8% p.a.
iii) ₹ 5 lakh through ordinary shares & ₹ 15 lakh through debt @ 9% p.a.
iv) ₹ 10 lakh through ordinary shares & ₹ 10 lakh through preference share with 5% dividend.
The Company's expected EBIT will be ₹ 8,00,000. Assuming tax rate is 50%. Determine EPS and comment which alternative is best? Why? (08 Marks)

- 8 A Company is considering an investment proposal to install a new milling control at a cost of ₹ 50,000. The facility has a life expectancy of 5 years without any salvage value. The firm uses SLM of depreciation and the same is used for tax purposes. The tax rate is assumed to be 35%. The estimated cash flows before depreciation and tax for investment proposal are as under.

Year	1	2	3	4	5
CFBD & BT	10,000	10,692	12,769	13,462	20,385

Compute :

- a. Pay – back period (PBP).
b. Average Rate of Return (ARR).
c. NPV @ 10% discount rate.
d. Profit ability index @ 10% discount rate. (16 Marks)
