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16/17MBA22

Second Semester MBA Degree Examination, Aug./Sept. 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.**

1.
 - a. Differentiate between Warrants and Convertibles. (02 Marks)
 - b. Mr.X deposit Rs.50,000/- in a bank at 12% interest rate. How much shall it grow at the end of 4 years , if interest is compounded annually, semiannually and quarterly? (06 Marks)
 - c. Explain the factors influencing the working capital requirements. (08 Marks)
2.
 - a. What do you mean by stable dividend? (02 Marks)
 - b. Define capital budgeting. Explain the capital budgeting process. (06 Marks)
 - c. Describe the factors affecting the dividend policy. (08 Marks)

3.
 - a. What is meant by financial engineering? (02 Marks)
 - b. A company is considering to invest in a project requiring a capital outlay of Rs.2,00,000/-
Forecast of cash flow after depreciation but before tax is as follows:

Year	1	2	3	4	5
Cash flow	80000	90000	60000	70000	20000

The depreciation may be taken as 20% on straight line method. The income tax rate is 40%. Calculate payback period for the project. (06 Marks)

- c. TVS Limited has equity share capital of Rs.5,00,000/- divided into share of Rs.100 each. It wishes to raise further Rs.3,00,000/- for expansion/modernization plan. The company plans following schemes:
 - (i) All common stocks.
 - (ii) Rs.1,00,000/- in common stocks and Rs.2,00,000/- Rs in debt with the rate of Interest at 10%.
 - (iii) All Debt at 10%.
 - (iv) Rs.1,00,000/- in common stock and Rs.2,00,000/- in preference share capital with 8% dividend.

Company's expected EBIT is Rs.1,50,000/-. The corporate tax rate is 50%. Determine earning per share for each plan and comment on it. (08 Marks)

4.
 - a. List the factors affecting cost of capital. (02 Marks)
 - b. Following is the capital structure of a company. (06 Marks)

Particulars	Amount
Equity capital	4,00,000/-
10% preference share capital	2,00,000/-
Retained earnings	1,00,000/-
5% debentures	3,00,000/-
	10,00,000/-

The cost of equity capital of the company is 15% and retained earnings 8%. Assume tax rate of 50%. Calculate the weighted average cost of capital.

- c. Explain the different sources of financing. (08 Marks)

- 5 a. What do you mean by operating cycle? (02 Marks)
 b. The following data for X limited for the year ended 31st December 2016 is given below:

Particulars	1 - 1 - 2016 (Rs. in lakhs)	31 - 12 - 2016 (Rs. in lakhs)
Inventory	9	12
Accounts receivable	12	16
Accounts payable	7	10

Annual sales = Rs.80/- (Rs. in lakhs)

Cost of good sold = Rs.56/- (Rs. in lakhs)

What is the length of operating cycle and cash cycle? Assume 365 days in a year. (06 Marks)

- c. Write a note on the emerging role of finance managers in India. (08 Marks)
- 6 a. What is risk management? (02 Marks)
 b. "Financial management is more than procurement of funds." Explain. (06 Marks)
 c. From the following information, estimate the networking capital requirement and allow 10% contingency.

Particulars	Amount per unit.
Raw materials	80 per unit
Direct labour	30
Overhead	60
Total cost of production	170

Additional information:

- (i) Selling price Rs.200 per unit.
 (ii) Level of activity 1,04,000 units.
 (iii) Work in progress (100 % raw material), 50% of other cost, average 2 weeks.
 (iv) Raw material in stock average 4 weeks.
 (v) Finished goods in stock average 4 weeks.
 (vi) Debtors, credit allowed to debtors 8 weeks.
 (vii) Creditors, credit allowed by supplier 4 weeks.
 (viii) Lag in payment of wages 1.5 weeks.
 (ix) Cash at bank Rs.25,000/-
 (x) Production is carried out throughout the year all sales are in credit basis. (08 Marks)
- 7 a. What do you mean by behavioral finance? (02 Marks)
 b. "Wealth maximization objective is superior to profit maximization objective for an organization". Explain. (06 Marks)
 c. ABC company barrows 18,00,000 at Interest rate of 16% and Loan is to be repaid in 7 equal installments payable at the end of each of next 7 years. Prepare loan amortization schedule. (08 Marks)

- 8 The selected financial data of ABC and companies for current year ended are as follows:

Particulars	A	B	C
Variable expenses (as % of sales)	66.67%	75%	50%
Interest expenses	200	300	1000
Degree of operating leverage	5	6	6
Degree of financial leverage	3	4	2
Tax rate	35%	35%	35%

Prepare income statement for the above.

(16 Marks)

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