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16/17MBA22

## Second Semester MBA Degree Examination, Jan./Feb. 2021 Financial Management

Time: 3 hrs.

Max. Marks:80

**Note: 1. Answer any FOUR full questions from Q1 to Q7.  
2. Question No. 8 is compulsory.  
3. PV and FV tables may be permitted.**

- 1**
- a. What is financial management? (02 Marks)
  - b. Explain the long term sources of funds. (06 Marks)
  - c. What are the objectives of financial management? In what way wealth maximization objective is superior to profit maximization objective? (08 Marks)
- 2**
- a. What is time value of money? (02 Marks)
  - b. Calculate the following :
    - i) Calculate the future value of an investment of Rs. 10,000 compounded semi annually for 10 years @ 10% P.a.
    - ii) An executive is about to retire at the age of 60, this employer has offered him two post retirement options. i) Rs. 20,00,000 lump sum ii) Rs. 2,50,000 for 10 years, assuming 10% interest. Which is a better option?
    - iii) ABC Ltd has issued debentures of Rs. 50 lakhs to be repaid after 7 years. How much the company should invest in a sinking fund earning 12% in order to be able to repay debentures? (06 Marks)
  - c. Prepare a loan amortization table from the following information.  
Loan amount Rs. 15,00,000, rate of interest 20% loan period 5 years. (08 Marks)
- 3**
- a. What is cost of capital? (02 Marks)
  - b. Discuss the problem in determination of cost of capital. (06 Marks)
  - c. The PQR company has the following capital structure in 31<sup>st</sup> March 2018.
 

ordinary shares (2,00,000 shares)	-	40,00,000
10% preference shares	-	10,00,000
14% debenture	-	30,00,000
	Total	<u>80,00,000</u>

The share of company sells for Rs. 20. It is expected that company will pay next year a dividend of Rs. 2 per share which will grow at 7% forever. Assume 50% tax rate. You are required to

- i) Compute WACC using existing capital structure
- ii) Compute the new WACC if the company raises an additional of Rs. 20,00,000 by issuing 15% debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged, but price of share will fall to Rs. 15 per share. (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 meant by capital rationing? (02 Marks)  
 b. ABC Ltd is evaluating a project that has the following cash flow stream associated with it.

Year	0	1	2	3	4	5	6
Cash outflow (in millions)	120	80					
Cash inflow (in millions)	-	-	20	60	80	100	120

Calculate modified Rate of Return. The cost of capital of ABC Ltd is 15%. (06 Marks)

- c. The expected cash flows of a project are as follows :

Year	0	1	2	3	4	5
Cash flow	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) Profitability Index  
 iii) Payback Period iv) Discounted Payback Period. (08 Marks)

- 5 a. Distinguish between gross working capital and net working capital. (02 Marks)  
 b. From the following data, compute the duration of operating cycle and cash cycle of X Ltd.,

Stocks :

Raw Materials	-	40,000
Work in process	-	30,000
Finished goods	-	25,000
purchase/consumption of Raw materials	-	1,60,000
Cost of goods produced/sold	-	3,00,000
Sales (credit)	-	3,60,000
Debtors	-	72,000
Creditors	-	20,000

Assume 360 days per year for computational purpose. (06 Marks)

- c. Explain the factors determining the working capital requirements. (08 Marks)

- 6 a. What is stock splits? (02 Marks)  
 b. Kunal Industries most recent Balance Sheets is as follows :

Liabilities	Amount	Assets	Amt
Equity Capital (Rs. 10 per share)	60,000	Net Fixed Assets	1,50,000
10% Longterm Debt	80,000	Current assets	50,000
Retained Earnings	20,000		
Current Liabilities	40,000		
	2,00,000		2,00,000

The company's total asset turnover ratio is 3. Its fixed cost are 1,00,000 and the variable cost ratio is 40%. The income tax rate is 35%.

- i) Calculate the three types of Leverages.  
 ii) Determine the likely level of EBIT if EPS is Rs. 3. (06 Marks)

- c. Oriental Ltd has currently an ordinary share capital of Rs. 25 lakhs, consisting of 25,000 shares of Rs. 100 each. The management is planning to raise another Rs. 20 lakhs to finance major expansion programs, through one of four possible financial plans.
- i) Entirely through ordinary shares
  - ii) Rs. 10 lakhs through ordinary shares and Rs.10 lakhs in 8% long term loan
  - iii) Rs. 5 lakhs through ordinary shares and Rs. 15 lakhs through 9% long term loan
  - iv) Rs. 10 lakhs through ordinary shares and Rs. 10 lakhs through preference shares with 5% dividend.

The company expected earnings before interest and taxes will be Rs. 8 lakhs. Assuming a corporate tax rate 50%. Determine the EPS in each alternative and comment which alternative is best and why? (08 Marks)

- 7 a. What is Hybrid financing? (02 Marks)  
 b. Explain Capital Budgeting Process. (06 Marks)  
 c. Discuss the factors affecting dividend policy of a firm. (08 Marks)

8 CASE STUDY [Compulsory]

Nihal Industries provides the following Performa cost sheet.

Elements of cost	Amount per unit (Rs.)
materials	80
Direct Labour	30
overheads	60
Total cost	170
Profit	30
Selling Price	200

The following further particular are available:

- i) Raw materials are in stock on an average for one month
- ii) Raw materials are in process on an average of half a month
- iii) Finished goods are in stock on an average for one month
- iv) Credit allowed by supplies in one month
- v) Lag in payment of overheads is one month
- vi) Lag in payment wages is 1½ weeks
- vii)  $\frac{1}{4}$  output is sold against cash
- viii) Cash in hand and at Bank in expected to be Rs. 25,000
- ix) Credit allowed to customers two 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.

Your may assume that production is carried on evenly throughout the year, wages and overhead occurs similarly and a time period of a week is equivalent to a month. (16 Marks)

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