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Second Semester MBA Degree Examination, Dec.2016/Jan.2017
Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any three full questions from Q.No.1 to Q.No.6.***
2. Question No. 7 & 8 are compulsory.
3. Use of time value tables permitted.

1 a. Mention any three importance of financial management. **(03 Marks)**
b. What are the arguments in favour of profit maximization? **(07 Marks)**
c. What is money market? Briefly explain various money market instruments. **(10 Marks)**

2 a. What is angel investing? **(03 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 his account if interest is compounded
i) annually ii) semi-annually and iii) quarterly. **(07 Marks)**
c. A company has on its books the following accounts and specific costs of each type of capital.

Type of capital	Book value	Market value	Specific cost (%)
Dept capital	4,00,000	3,80,000	5
Preference capital	1,00,000	1,10,000	8
Equity	6,00,000	9,00,000	15
Retained Earning	2,00,000	3,00,000	13

Determine the weighted average cost of capital using :
i) Book value weights and
ii) Market value weights. **(10 Marks)**

3 a. Find out the present value of Rs 3,000 received after 10 years hence, if the discount rate is 10%. **(03 Marks)**
b. What do you understand by hybrid financing? Also explain the features of debentures as an instrument of hybrid financing. **(07 Marks)**
c. A businessman borrowed Rs 25, 00,000 at an interest rate of 8% per annum. The loan has to be repaid in equal installments payable at the end of every year for 5 years. Compute the annual installment and prepare a loan amortization schedule. **(10 Marks)**

4 a. What is marginal cost of capital? **(03 Marks)**
b. Two competing projects, which require an equal investment of Rs 50,000 and are expected to generate net cash flows as under.

Year	Project X	Project Y
1	25,000	10,000
2	15,000	12,000
3	10,000	18,000
4	-	25,000
5	12,000	8,000
6	6,000	4,000

The cost of capital of the company is 10%
Evaluate the project proposals under
i) Payback period method and
ii) NPV method. **(07 Marks)**

c. Explain the factors influencing working capital requirements of a firm. **(10 Marks)**

5 a. Define capital budgeting. **(03 Marks)**

b. From the following data, prepare a statement showing working capital requirement for the year 2016 :

i) Estimated output for the year 1,30,000 units (52 weeks).
ii) Stock of raw materials 2 weeks and material in process for 2 weeks 50% wages and overheads are incurred.
iii) Finished goods remain in storage for 2 weeks.
iv) Creditors 2 weeks
v) Debtors 4 weeks
vi) Outstanding wages and overheads 2 weeks each
vii) Selling price per unit Rs 15.
viii) Analysis of cost per unit is as below :

Raw material	Rs 5	Per unit
Labour	Rs 3	Per unit
Over heads	Rs 2	Per unit
Profit	Rs 5	Per unit

Assume the operations are evenly spread throughout the year. **(07 Marks)**

c. Calculate the degree of operating leverage financial leverage and combined leverage for the following firms. **(10 Marks)**

	P	Q	R
Output (units)	3,00,000	75,000	5,00,000
Fixed cost (Rs)	3,50,000	7,00,000	75,000
Variable cost per unit (Rs)	1.00	7.50	0.10
Interest expenses (Rs)	25,000	40,000	NIL
Unit selling price (Rs)	3	25	0.50

6 a. What is net working capital? **(03 Marks)**

b. What is meant by derivatives? Also briefly explain the different types of derivatives. **(07 Marks)**

c. A company has to select one of two alternative projects where particulars are given below:

Year	Project A	Project B
0	1,28,720	1,05,000
1	1,00,000	10,000
2	20,000	10,000
3	10,000	20,000
4	10,000	1,00,000

The company can arrange necessary funds at 8%. Compute the NPV and IRR of each project and comment on the result. **(10 Marks)**

7 **Compulsory** :

a. A company has 10% perpetual debt of Rs 1, 00,000. The tax rate is 35%. Determine the cost of capital (before tax as well as after tax) assuming the debt is issued at :
i) Par ii) 10% discount iii) 10% premium. **(05 Marks)**

b. Mr. Anand an employed of a company is about to retire at the age of 60. His employer has offered him two post retirement options :
   i) Rs 10,00,000 lumpsum payment.
   ii) Rs 1,25,000 for 20 years.

Assuming 10% interest rate which is better option for Mr. Anand. **(05 Marks)**

c. A firm has approached you for a help in designing its capital structure. What factors would you consider while designing the capital structure for the company? **(05 Marks)**

d. Briefly explain any five factors affecting dividend policy. **(05 Marks)**

8 **Case Study [Compulsory]** :

A plastic manufacturing company has under consideration the proposal of production of high quality plastic glasses. The necessary equipment to manufacture the glasses would cost Rs 1,00,000 and would last 5 years . The tax relevant rate of depreciation is 20% an written down value. There is no other asset in this block. The expected salvage value is Rs 10,000.

The glasses can be sold at Rs 4 each. Regardless of the level of production, the manufacturer will incur cash cost of Rs 25,000 each year if the project is undertaken. The variable cost are estimated at Rs 2 per glass. The manufacturer estimates it will sell about 75,000 glasses per year, the tax rate is 35%.

Should the proposed equipment be purchased? Assume 20% cost of capital and additional working capital requirement is Rs 50,000. **(20 Marks)**

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