

## Solution for I - Internal (IAT)

Semester: 2 Sub: Financial Management

Subject code: 17MBA22. Date: 22/3/18. Max Marks: 40

### Part A

1. a) Define financial Management: (2)

According to I. M. Pandey, Financial management is concerned with planning and controlling of a firm's financial resources.

b) Distinguish Equity shares and debentures (6)

	Equity shares		debentures
*	These shares are the owned funds of the Company.		The debentures are the borrowed funds of the Company.
*	Shares represent the capital of the Company		Debenture represents the debt of the Company.
*	Status of holders is owners		Status of holders is creditors.
*	Shareholder's get dividend		debenture holders get interest.
*	There is no security for payment.		There is a security for payment.

1 c Describe the role of financial manager.

Financial manager is one of the major role player in the field of finance, because it is ever emerging part which reflects the entire operational & profitability position of any firm.

The various roles of financial manager in the changing environment ranges from

- a) forecasting financial requirements
- b) Providing necessary capital
- c) Investment decisions
- d) Cash management.

2a) Behavioral finance. (2)

Behavioral finance combines social and psychological theory with financial theory as a means of understanding how price movements in the securities market occur independent of any corporate actions.

It is a field of finance that proposes psychological based theories to explain stock market anomalies such as severe rises or falls in stock price.

2b) Differentiate capital market and Money market. (6)

	Capital market	Money market.
*	<del>Formal</del> formal market	Informal market
*	These instruments constitutes shares, debentures, bonds, retained earnings, securitisation of debt.	Financial instruments are treasury bills, commercial paper, certificate of deposit, Trade credit etc.
*	Risk factor is comparatively high	Risk factor is low.
*	Low liquidity	High liquidity



2c.  $n = 10 \text{ yrs.}$        $r = 10 \%$        $PCF = 20,00,000.$

$$FCF_A = ?$$

Solution

$$PCF = FCF_A \times PVIFA(r, n)$$

$$20,00,000 = FCF_A \times PVIFA(10\%, 10 \text{ yrs})$$

$$20,00,000 = FCF_A \times 6.145$$

$$FCF_A = \frac{20,00,000}{6.145}$$

$$FCF_A = \text{Rs } 325,468/-$$

A person has to save Rs 325,468 for every 10 years in order to go for world tour.

3a) Time Value of money (2).

Money has time value. Time value of money arises when one's money is used by others.

The concept of time value of money also states that a money received today is much better than money received in future.

b). Discuss the meaning of merger & Acquisitions with an example.

Merger - refers to the process whereby at least two companies combine to form a one single company.

It is a combination of two or more companies, into a single company where one survives and other lose their corporate existence.

Ex: JP Morgan / Chase Manhattan became JP Morgan Chase.  
Burroughs / Sperry Rand became Unisys.

Acquisitions: - means acquiring the ownership in the company. When 2 companies become one, but with the name and controller of the acquirer, and the control goes automatically into the hands of the acquirer.

Ex: Tomco by HLL.

3c. Annually  
 PCF = Rs 100      n = 5      r = 8%

$$FCF = PCF \times (1+r)^n$$

$$100 \times (1+0.08)^5$$

$$100 \times (1.08)^5$$

$$100 \times 1.469$$

$$\approx \text{Rs } 146.93/-$$

ii) Semi-annually

$$\frac{r}{2} = \frac{8\%}{2} = \frac{0.08}{2} = 0.04$$

$$n \times 2$$

$$5 \times 2 = \boxed{10 = n}$$

$$FCF = PCF (1+r)^n$$

$$100 \times (1+0.04)^{10}$$

$$100 \times (1.04)^{10}$$

$$100 \times 1.480 \approx \text{Rs } \underline{\underline{148.02/-}}$$

iii) Quarterly

$$\frac{r}{4} = \frac{8\%}{4} = \frac{0.08}{4} = 0.02$$

$$n \times 4 = 5 \times 4 = 20 \text{ years}$$

$$FCF = PCF (1+r)^n$$

$$100 (1+0.02)^{20}$$

$$100 (1.02)^{20}$$

$$100 \times 1.486 \approx \text{Rs } \underline{\underline{148.59/-}}$$

4a) PCF: ₹ 1000/-  $r$ : 10% FCF = ?  $n$ : 8.

(i)

$$\begin{aligned}
 FCF &= PCF \times (1+r)^n \\
 &= 1000 (1+0.10)^8 \\
 &= 1000 (1.10)^8 \\
 &= 1000 \times 2.1435
 \end{aligned}$$

$$\boxed{FCF = ₹ 2143.59/-}$$

When.  $n$ : 12 year.

$$\begin{aligned}
 FCF &= PCF \times (1+r)^n \\
 &= 1000 \times (1+0.10)^{12} \\
 &= 1000 \times (1.10)^{12} \\
 &= 1000 \times 3.138
 \end{aligned}$$

$$\boxed{FCF = ₹ 3138.42}$$

4a(ii) PCF: 5000.  $r$ : 6%  $n$ : ? /  $Dp$ : ?

$$Dp = \frac{72}{I} = \frac{72}{6} = 12 \text{ year}$$

It will take 12 years to double the amount in 5000/-



4b)

PCF = 10,00,000.  $r = 12\%$ .  $n = 4$  years

Loan Amortisation Schedule: ?

$$FCF_A = ?$$

$$PCF = FCF_A \times PVIFA(r, n)$$

$$10,00,000 = FCF_A \times PVIFA(12\%, 4y)$$

$$10,00,000 = FCF_A \times 3.037$$

$$FCF_A = \frac{10,00,000}{3.037}$$

$$FCF_A = \text{Rs } 329,272/-$$

$$\begin{array}{r} \text{PVIFA} \\ 12\% \\ 4 \quad | \quad 3.037 \end{array}$$

Loan Amortisation Schedule

Yr	Installment	Interest	Principal	Loan o/b.
0	—	—	—	10,00,000.
1	329,272	120,000	209272	790,728
2	329,272	94887	234385	556343
3	329,272	66761	262511	293832
4	329,272	35440	293832	—