CMR INSTITUTE OF TECHNOLOGY

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Internal Assesment Test - I

Sub:	Financial Management					Code:	18MBA22
Date	27/03/19	Duration:	90 mins	Max Marks:	50	Sem: I	Branch: MBA

		Marks	OBE CO	OBE RBT
1 (a)	Define financial Management	[02]	CO1	L1
(b)	Explain warrants and convertibles	[05]	CO1	L4
(c)	Write short notes on : Angel investing, hybrid financing, Behaviorial finance, money market	[08]	CO1	L1
2a)	What is time value of Money	[02]	CO2	L1
(b)	Define private equity and explain its types.	[01+04]	CO1	L1,L4
c)	An investor deposits a sum of Rs 1000 for 5 years at 8%. Find out the amount that he will have in his account if the interest is compounded: Annually, quarterly and half yearly	[08]	CO2	L3
3 (a)	State the 3 types of financial decisions.	[02]	CO1	L1
(b)	An author of a book is entitled to a royalty of Rs 12000 a year from the publisher for 10 years. Instead of the annual payment of royalty , the author wants the value of the royalty to be paid in cash immediately. The compound interest rate is 8% p.a. Calculate the amount of royalty payable by the publisher to the author immediately.	[05]	CO2	L3
c)	Discuss in detail the objectives of financial management	[08]	CO1	L4

Part B (Answer all the questions, each question carries 20 marks)

		Marks	CO	RBT
4 a)	Explain in detail the role of financial manager in the changing scenario	(10)	C01, C02	L4,L3
b)	If you deposit Rs 500 today @ 10% interest, in how many years, will the amount get double	(2)		
c)	Xyz Ltd took a loan of Rs 10,00,000 for an expansion programme from IDBI @ 7% interest per year. The amount has to be repaid in 6 equal installments, Calculate the installment amount and loan amortization schedule.	(8)		

Course Outcomes		PO1	PO2	PO3	PO4	PO5
CO1:	Understand the basic financial concepts	1a,1b, 1c,3c, 4a				
CO2:	Apply time value of money	2a,2c, 3b, 4b, 4c				
CO3:	Evaluate the investment decisions					
CO4:	Analyze the capital structure and dividend decisions					
CO5:	Estimate working capital requirements					

Cognitive level	KEYWORDS
L1	List, define, tell, describe, identify, show, label, collect, examine, tabulate, quote, name, who, when, where, etc.
L2	summarize, describe, interpret, contrast, predict, associate, distinguish, estimate, differentiate, discuss, extend
L3	Apply, demonstrate, calculate, complete, illustrate, show, solve, examine, modify, relate, change, classify, experiment, discover.
L4	Analyze, separate, order, explain, connect, classify, arrange, divide, compare, select, explain, infer.
L5	Assess, decide, rank, grade, test, measure, recommend, convince, select, judge, explain, discriminate, support, conclude, compare, summarize.

PO1- *Theoritical knowledge* *PO2 – Effective communication skill ;*
PO3- Leadership qualities ;
PO4 – Sustained research Orientation *PO5: Self sustaining Entrepreneurship*

Answer key:

Subject : Financial Management Sem: II

Subject Code: 18MBA22. Date of Exam: 27/3/19.

Part A

1. Define financial Management.

a) Acc to Van Horne, and Wachowicz, "Financial management is concerned with acquisition, financing and management of assets with some overall goal in mind."

b) Explain Warrants and Convertibles.

Warrants: A security that permits its owner to purchase a specific number of shares at a particular pre-determined price

Warrants usually originate as a part of new bond issue, but they are traded after issuance.

Convertibles

Convertibles are usually bonds or preference shares, that can be converted into Common Stock.

Convertibles are most often associated with Convertible bonds, , which can include notes and preferred shares which can possess many different traits.

1c. Write short notes on:

Angel investing:

Angel investing is also known as business angel investing, informal investing, angel funder investing, Private investing or seed investing.

Angel investing provides capital for start-ups, usually in Exchange for Convertible debt or ownership equity.

Hybrid financing Hybrid financing is the financial instrument that partakes some features of debt and some features of Equity.

Behavioral finance

Behavioral finance Combines Social and psychological theory with finance theory as a means of understanding how price movements in the securities market occur independent of any Corporate actions.

Money market. Money market is where financial instruments with high liquidity and very short maturities are traded.

2a) Time value of money:

Money has time value. The value of money rupee received today is different from the value of rupee to be received after sometime in the future.

The preference for present money against future money is called as the time value of money or Time preference for money or time.

2b. Private Equity and its types

Definition of Private equity:

Private equity funds are pools of capital to be invested in Companies that represent an opportunity for a high rate of return. They Come with a fixed investment horizon, typically ranging from 4-7 years.

Types of Private Equity funds

Venture capital
Leveraged Buyout (LBO)

3a) State 3 types of financial decisions.

The three important types of financial decisions are

* Financing decisions
* Investment decisions
* Dividend decisions

3C. Detail Objectives of financial management

The term Objective refers to a goal or decision for taking financial decisions.

The 2 major objectives of financial management are

Profit maximisation ← → Wealth maximisation

Profit maximisation

The Primary motive of profit maximisation is Profit. Profit is determined based on Price which ultimately depends on demand and supply.

Profit is the yardstick to measure the performance of business. Profit maximisation has several limitations

It is vague, Ignores time value of money, Quality of benefits.

Wealth maximisation

It is otherwise called as Shareholders Wealth maximisation. Wealth maximisation means maximisation of the wealth of the company. The wealth of the company is maximised in the maximisation of the market value of the company. it means maximisation of the market value of the equity shares of the company.

Answer key for Financial Management
Subject code: 18MBA22. Date of IAT: 27/3/19

Part A:

2c). PCF = Rs 1000 n: 5yr r: 8%

Calculate FCF if compounded.

Annually, Quarterly, Half yearly

FCF for Annually

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

$$1000(1+0.08)^5 =$$

$$1000(1.08)^5$$

FCF = Rs 1469.

Alternatively the problem can be solved in

$$FCF = PCF \times FVIF_{(r,n)}$$

$$1000 \times FVIF_{(8\%\ 5yr)}$$

Refer FVIF Table

FCF for Quarterly

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

$$r/4 = \frac{8\%}{4} = 2\%$$

$$n \times 4 = 5 \times 4 = 20m.$$

$$\therefore FCF = 1000(1+0.02)^{20}$$

$$1000(1.02)^{20}$$

$$1000 \times 1.486$$

FCF = 1486/- Rs.

FCF for half yearly

$$\frac{r}{2}, \quad n \times 2$$

$$\frac{8\%}{2} = 4\%. \quad 5 \times 2 = 10m.$$

$$FCF = 1000(1+0.04)^{10}$$

$$1000(1.04)^{10}$$

$$1000 \times 1.480$$

FCF = Rs 1480/-

FCF for Annually: Rs 1469/-
Quarterly: Rs 1486/-
Half yearly Rs 1480/-

3b).

FCF_A = Rs 12000/- year. n: 10yrs r: 8%.

$PCF = FCF_A \times PVIFA_{(r,n)}$

$12000 \times PVIFA_{(8\%, 10yr)}$

$= 12000 \times 6.7101$

= Rs 80,521/-

Hence the Royalty amount payable by the publisher to the author immediately is Rs 80521/-

Part B

4b). PCF = Rs 500/- r: 10%. n: or Dp = ?

As per Rule of 72:

$Dp = \frac{72}{I} = \frac{72}{10} = 7.2$ years.

Hence the money 500 Rs will double in 7 yrs and 2 months.

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4 c).

PCF: Rs 10,00,000/- I: 7% per year.

6 equal annual installments.

Calculation of.

Loan Installment annually

$$PCF = FCF_A \times PVIFA_{(r,n)}$$

$$10,00,000 = FCF_A \times PVIFA_{(7\%\ 6yrs)}$$

$$10,00,000 = FCF_A \times 4.7665$$

$$FCF_A = \frac{10,00,000}{4.7665}$$

$$FCF_A = Rs.\ 209,798/-$$

For a loan taken for Rs 10,00,000 an annual installment of Rs 209 798 has to be paid.

Calculation of Loan Amortisation Schedule:

Year.	Annual Installment		Interest		Principal		Loan o/s.
0	—		—		—		10,00,000.
1	209,798	(–)	70,000	=	139798	-	860202.
2	209,798	(–)	60214	=	149584		710618
3	209,798	(–)	49743	=	160055		550563
4	209,798	(–)	38539	=	171259		379304
5	209,798	(–)	26551	=	183247		196057
6	209,798.	(–)	13741		196057		0