

Internal Assessment Test - II

Sub:	Financial Management					Code:	18MBA22			
Date	06/04/19	Duration:	90 mins	Max Marks:	50	Sem:	I	Branch:	MBA	

		Marks		OBE																					
		CO	RBT																						
1 (a)	Define Cost of capital	[02]	CO3	L1																					
(b)	Compute MIRR for the following projects:	[05]	CO3	L3																					
<table border="1" style="width: 100%; border-collapse: collapse; margin-bottom: 10px;"> <thead> <tr> <th style="width: 10%;">Year</th> <th style="width: 10%;">0</th> <th style="width: 10%;">1</th> <th style="width: 10%;">2</th> <th style="width: 10%;">3</th> <th style="width: 10%;">4</th> <th style="width: 10%;">5</th> <th style="width: 10%;">6</th> </tr> </thead> <tbody> <tr> <td>Cash flow</td> <td>485,000</td> <td>85,400</td> <td>96,500</td> <td>132,600</td> <td>216,000</td> <td>124,000</td> <td>98,500</td> </tr> </tbody> </table> <p>Cost of capital is 12%</p>						Year	0	1	2	3	4	5	6	Cash flow	485,000	85,400	96,500	132,600	216,000	124,000	98,500				
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(c)	ABC LTd issues 12% debentures of Rs 600,000. The tax rate applicable is 30%. Compute the cost of debt capital i) at par ii) at 10% premium iii) at 10% discount.	[08]	CO3	L3																					
2a)	What is capital rationing	[02]	CO3	L1																					
(b)	Explain the various sources of financing.	[05]	CO3	L4																					
c)	A Company's after tax , cost of capital of the specific sources is as follows	[08]	CO3	L3																					
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3 (a)	What do you mean by profitability index?	[02]	CO3	L1																					
(b)	Explain CAPM and its assumptions	[05]	CO3	L4																					
c)	A Company plans to undertake a project for placing new product line in the market. The company's cut off rate is 12%. It was estimated that the project would cost Rs 40,00,000 in plant and machinery in addition to working capital of Rs 10,00,000 at the end of the life of the project , Scrap value 10% . After tax is estimated as follows	[08]	CO3	L3																					

Year	1	2	3	4	5
PAT (Rs)	300,000	800,000	13,00,000	500,000	400,000
DF @ 12%	0.893	0.797	0.712	0.636	0.567

Evaluate the Project under: a) NPV, b) PI

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

4 a. ABC has the following book value capital structure (Rs in crores) (10)

Equity capital (in shares of Rs 10 each)	Rs 15
12% preferential capital(in shares of Rs 100 each)	Rs 1
Retained earnings	Rs 20
11.5% debentures (of Rs 100 each)	Rs 10
11% Term loans	Rs 12.5

The next expected dividend on equity shares per share is Rs 3.60, the dividend per share is expected to grow at the rate of 7%. The market price per share is Rs 40. Preference share, redeemable after 10 years is currently selling at Rs 75 per share. Debentures, redeemable after six years are selling at Rs 80 per debenture. The income tax rate for the company is 40%. You are required to calculate WACC at Book value and market value weights.

b. A company has to select one of the two alternative projects where particulars given below

Year	0	1	2	3	4
Project A	128.72 0	100,000	20,000	10,000	10,000
Project B	105,00 0	10,000	10,000	20,000	100,000

The company can arrange necessary funds @ 8%. Compute NPV and IRR for each project and comment on the results.

CO3 L 3

CO3 L3

Course Outcomes		PO1	PO2	PO3	PO4	PO5
CO1:	Understand the basic financial concepts					
CO2:	Apply time value of money					
CO3:	Evaluate the investment decisions	1a, 2a,2b, 3a,3b			1b,1c,2 c,3c,4a, 4b	
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- *Theoretical knowledge* PO2 – *Effective communication skill* ;
PO3- *Leadership qualities* ;
PO4 – *Sustained research Orientation* PO5: *Self sustaining Entrepreneurship*