

CBCS SCHEME

18MBA22



USN

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Second Semester MBA Degree Examination, Aug./Sept.2020 Financial Management

Time: 3 hrs.

Max. Marks:100

**Note: 1. Answer any Four questions from Q.No. 1 to Q.No. 7.
2. Question No. 8 is compulsory.**

1. a. What is Behavioral Finance? (03 Marks)
 b. Differentiate Capital market and Money market. (07 Marks)
 c. An investor deposits Rs 5000 in a bank for 6 years @ 7% interest. Find out the amount he will have in his account if the interest is compounded :
 i) Monthly ii) Quarterly iii) Semi annually iv) Annually. (10 Marks)
2. a. What do you mean by Marginal cost of capital? (03 Marks)
 b. Differentiate Equity shares with debenture. (07 Marks)
 c. ABC Company supplied you the following information. Compute WACC based on
 i) Book value ii) Market value.

| Source of Finance | Book value (Rs) | Market value | After Tax cost (%) |
|------------------------|-----------------|--------------|--------------------|
| Equity capital | 12,00,000 | 13,00,000 | 12 |
| Long term debt capital | 9,00,000 | 8,00,000 | 08 |
| Short term debt | 250,000 | 260,000 | 04 |
| Total | 23,50,000 | 23,60,000 | |

(10 Marks)

3. a. What is Pay Back Period? How do you calculate PBP if cash inflow is uniform? (03 Marks)
 b. Discuss the Long term source of finance. (07 Marks)
 c. PQR Ltd., is considering the purchase of machinery. Two alternative machinery 1, 2, are suggested each costing Rs 500,000 Cash inflow are expected to be as follows :

| Year | 1 | 2 | 3 | 4 | 5 |
|------------|---------|---------|---------|---------|---------|
| Machine 1 | 45,000 | 130,000 | 150,000 | 250,000 | 170,000 |
| Machine 2 | 130,000 | 170,000 | 210,000 | 130,000 | 90,000 |
| PVIF @ 12% | 0.893 | 0.797 | 0.712 | 0.636 | 0.567 |

Calculate i) NPV ii) Profitability Index. (10 Marks)

4. a. What is CAPM? State its assumptions. (03 Marks)
 b. The following is the income statement of Q Ltd., for the year 2017.

| Particulars | Rs |
|-----------------------------------|----|
| Sales | 60 |
| Variable cost | 30 |
| Contribution | 30 |
| Fixed cost | 10 |
| EBIT | 20 |
| Interest | 10 |
| EBIT | 10 |
| Tax | 5 |
| EAT | 5 |
| Pref. Dividend | 1 |
| EAT available to eq. share holder | 4 |

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- Find out :
- i) Operating Leverage.
 - ii) Financial Leverage.
 - iii) Combined Leverage.

(07 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.

- c. Critically analyse the danger of excess and inadequate working capital. (10 Marks)
- 5 a. What is Capital Rationing? (03 Marks)
 b. Discuss the changing role of Financial Manager. (07 Marks)
 c. VS International Ltd., has a capital structure (all equity) comprising Rs 500,000 each share of Rs 10. The firm wants to raise an additional capital of Rs 250,000 for expansion programme. The firm has 4 alternative plans I, II, III and IV. If the firm is able to earn an EBIT of Rs 80,000 after an additional investment and 50% Tax rate. Calculate EPS for all alternatives and select preferable plans. The following are the financial plans.
 I) Raise the entire amount by new issue of equity capital.
 II) Raise 50% as equity capital and 50% as debt capital of 10%.
 III) Raise the entire amount as 12% debentures.
 IV) Raise 50% equity capital and 50% preference share capital @ 10%. (10 Marks)
- 6 a. Differentiate Gross and Net working capital. (03 Marks)
 b. Discuss the factors for estimating the working capital requirements. (07 Marks)
 c. From the following data compute the duration of operating cycle for each of 2 years.

Rs (in '000)

| Particulars | Year 1 | Year 2 |
|--------------------|--------|--------|
| Raw materials | 20 | 27 |
| WIP | 14 | 18 |
| Finished goods | 21 | 24 |
| Purchases | 96 | 135 |
| Cost of goods sold | 140 | 180 |
| Sales | 160 | 200 |
| Debtors | 32 | 50 |
| Creditors | 16 | 18 |

Assume 360 days per year for computational purpose.

(10 Marks)

- 7 a. What is Optimum Capital Structure? (03 Marks)
 b. Explain any seven factors affecting dividend policy of an organization. (07 Marks)
 c. i) A company named Vimal took a loan for purchasing a van costing Rs 10,00,000 @ 14% interest rate. The loan has to be repaid over the next 5 years. Estimate the monthly installment and prepare the loan amortization schedule.
 ii) Mr. X deposited Rs 5000/- in a bank which pays 12% interest rate. How long Mr. X has to wait for the amount as per rule 72. (10 Marks)

8 **CASE STUDY (Compulsory) :**

Vinay Engineering Pvt. Ltd., request you to prepare a statement showing working capital requirements for a level of activity at 156,000 units of production. The following information is available for your calculation.

| Particulars | CPU (Rs) |
|------------------------|----------|
| Raw Materials | 90 |
| Direct Labor | 40 |
| Overheads | 75 |
| Total cost | 205 |
| Profit | 60 |
| Selling price per unit | 265 |

- (i) Raw materials are in stock, on average for one month.
- (ii) Materials are in process (50% complete) on average for 4 weeks.
- (iii) Finished goods are in stock, on average for one month.
- (iv) Credit allowed by suppliers in one month.
- (v) Time lag in payment from debtors is 2 months.
- (vi) Average lag in payment of wages is 1.5 weeks.
- (vii) Average lag in payment of overheads is 1 month.

20% of the output is sold against cash. Cash in hand and in bank are expected to be Rs 60,000. It is to be assumed that the production is carried evenly throughout the year, wages and overhead occur similarly and a time period of 4 weeks is equivalent to be a month.

(20 Marks)

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