CMR INSTITUTE OF TECHNOLOGY

USN | | | | | | | | | | |

Internal Assesment Test - I

Sub:	Financial Management							Code:	20MBA22
Date	10/6/21	Duration:	90 mins	Max Marks:	50	Sem:	I	Branch:	MBA

		Marks	OBE CO	OBE RBT
1 (a)	Define financial Management Financial management may be defined as the area or function in an organization which is concerned with profitability, expenses, cash and credit, so that the "organization may have the means to carry out its objective as satisfactorily as possible;	[03]	CO1	L1
(b)	Explain Financial institutions and its functions The financial institutions provide loans and advances to the customers. The rate of return is very high in case of investment made in this type of institution. It also gives a high rated consultancy to the customers for their beneficial investments. It also serve as a depository for their customers Functions: ✓ The financial institutions provide loans and advances to the customers. ✓ The rate of return is very high in case of investment made in this type of institution. ✓ It also gives a high rated consultancy to the customers for their beneficial investments. ✓ It also serve as a depository for their customers. ✓ It can also make an effort to minimize the monitoring cost of the company. All the finance related work is done by the financial institution or on behalf of the customers.	[07]	CO1	L4
(c)	Discuss the interface of Financial Management with other disciplines of management	[10]	CO1	L1

financial management is interrelated with other areas. The relation between Financial management with other areas can be defined as follow:

#1. FM and Economics

Economic concept like micro and macro economics re directly applied with the FM approaches. Investment decisions, micro and macro environmental factors are closely associated with the functions of financial manager. FM also uses the economic equations like money value discount factor, economic order quantity etc. financial economics is one of the emerging area, which provides immense opportunities to finance and economical areas.

#2. FM and Accounting

Accounting records includes the financial information of the business concern. Hence, we can easily understand the relationship between the FM and accounting. In the olden periods both FM and accounting are treated as a same discipline and then it has been merged as management accounting because this part is very much helpful to finance manager to take decisions. But nowadays FM and Accounting discipline are separate and interrelated.

#3. FM and Production Management

Production management is the operational part of the business concern, which helps to multiple the money into profit. Profit of the concern depends upon the production performance. It needs finance because production department requires raw material, machinery, wages, operating expenses etc. these expenditures are decided and estimated by the financial department and the finance manager allocates the appropriate finance to production.

#4. FM and Human Resource

FM is also related with Human Resource department, which provides manpower to all the functional areas of the management. Financial manager should carefully evaluate the requirement of manpower to each department and allocate the finance to the Human Resource department as wages, salary, remuneration, commission, bonus, pension and other monetary benefits to the Human Resource department. Hence, FM is directly related with Human Resource management.

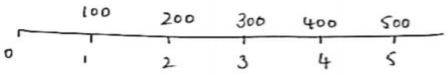
#5. FM and Marketing

Produced goods are sold in the market with innovative and modern approaches. For this, the marketing department needs finance to meet their requirements. The financial manager or finance department is responsible to allocate the adequate finance to the marketing department. Hence, marketing and FM are interrelated and depends on each other.

#6. FM and Mathematics

Modern approaches of the FM applied large number of mathematical and statistical tools and techniques. They are also Called as econometrics. Economic order quantity, discount factor, time value of money, cost of capital, capital structure theories, dividend theories, ratio analysis and working capital analysis are used as mathematical and statistical tools and techniques in the field of FM.

2a)	What is time value of Money The time value of money (TVM) is the concept that money you have now is worth more than the identical sum in the future due to its potential earning capacity. This core principle of finance holds that provided money can earn interest, any amount of money is worth more the sooner it is received. TVM is also sometimes referred to as present discounted value.	[03]	CO2	L1
(b)	Mr. Dip invests Rs 100, Rs 200, Rs 300, Rs 400 and Rs 500 at the beginning of each year. The deposit earns 7% compounded interest. Calculate the amount he is going to get after 5 years.	[07]	CO1	L1,L4



$r = 7\%$

$n = 5$ years

wkt,

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

$= 100(1+0.07)^4 + 200(1+0.07)^3 + 300(1+0.07)^2 + 400(1+0.07)^1 + 500(1+0.07)^0$

$= 100(1.07)^4 + 200(1.07)^3 + 300(1.07)^2 + 400(1.07)^1 + 500(1.07)^0$

$= 1647.558$

$\approx$ Rs 1648

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 [10] CO2 L3

Rs 1000

$n = 5$ years

$r = 8\%$

If compounded annually,

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

$= 1000(1+0.08)^5$

$= 1000(1.08)^5$

$= 1469.32$

$\approx$ Rs 1469

Quarterly.

$n = 5 \times 4 = 20$

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

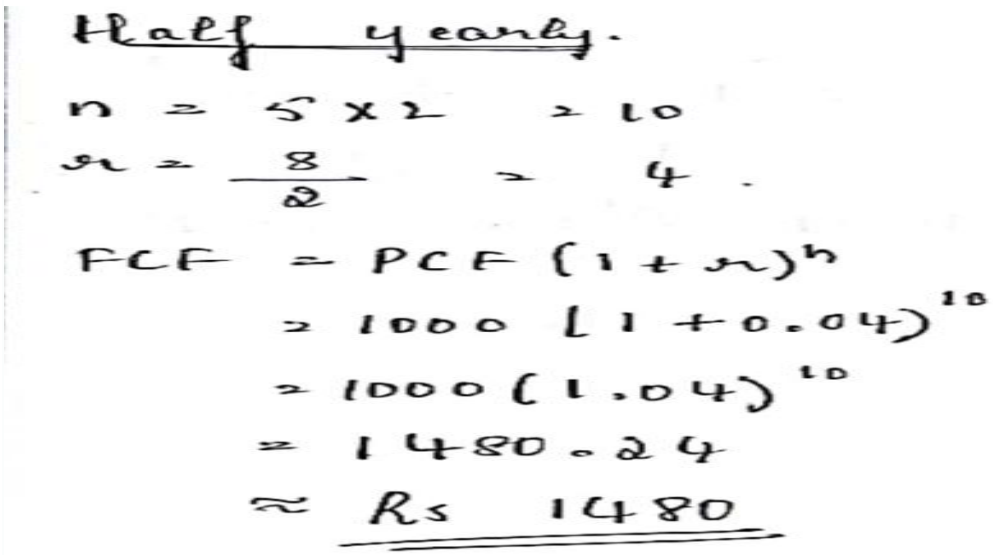
$FCF = PCF(1+r)^n$

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

$= 1485.94$

≈ 1486

Rs 1486



3 (a)	Who is financial manager, list his roles. The financial manager's responsibilities include financial planning, investing (spending money), and financing (raising money). Maximizing the value of the firm is the main goal of the financial manager, whose decisions often have long-term effects. ✓ Raising of Funds ✓ Allocation of Funds ✓ Profit Planning ✓ Understanding Capital Markets	[03]	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.	[07]	CO2	L3

Given :

$r = 8\% = 0.08$

Future cash flow of Annuity $(FCF_A) = Rs.\ 12,000$

$n = 10$

$PCF_A = ?$

Financial table formula

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

$= 12,000 \times PVIFA(8\%, 10)$

$= 12,000 \times 6.7101$

$= Rs.\ 80,521.2 \simeq Rs.\ 80,521$ //

Mathematical formula

$$PCF_A = FCF_A \times \frac{\left(1 - \frac{1}{(1+r)^n}\right)}{r}$$

$$= 12,000 \times \frac{\left(1 - \frac{1}{(1+0.08)^{10}}\right)}{0.08}$$

$$= 12,000 \times \frac{\left(1 - \frac{1}{2.1589}\right)}{0.08}$$

$= 12,000 \times 6.7100$

$= Rs.\ 80,520.9 \simeq Rs.\ 80,521$ //

c) Discuss in detail the objectives of Financial Management? [10] CO1 L4

(c) The term Objective refers to the goal or decision for taking financial decisions. Therefore, the financial manager is always guided by two objectives
1. Profit Maximisation
2. Wealth Maximisation.

1. Profit Maximisation :-
Profit is the primary motivating force for any Economic activity. In Order to maximize the interest of its stakeholders the firm has to Earn profit from its operations.

If an Enterprise fails to make profit, then
a) Capital invested will be Eroded
b) The firm will not be able to pay Salaries to its Employees, meet Expenses
c) It cannot pay its Creditors On time
d) Will not be able to survive in the market
e) Cannot Cope with its Competetors

How to get Profit?
(i) Put up prices by 3% Or more
(ii) Decrease direct Costs by 3% Or more
(iii) Sack underperforming Suppliers, customers & Staff as appropriate
(iv) Rethink the way you present the business
(v) Get more leads, say 10%.
(vi) Get better at talking to people, asking for the business & closing the sale
(vii) Get customers to buy atleast 3% more products
(viii) Collect money quicker, 10 days quicker.

The profit can be used in 2 sense
a) Owner-Oriented Concept :- It refers to the amount & share of national income which is paid to the owner of business that is those who supply Equity capital

b) Operational Concept :- According to this Concept, profitability refers to a situation where Output Exceeds Input.

Limitations of Profit Maximisation:-
a) Vague
b) Ignores time value of money
c) Timings of benefits
d) Quality of benifits

Wealth can be maximised by a firm in the following ways:-
a) By paying dividends to shareholders regularly
b) By maintaining growth in sales
c) By maintaining the price of Equity shares at reasonable levels
d) By adopting sound Investment policies

Merits
1. The Concept of wealth maximisation is very clear & not vague
2. It considers the time value of money
3. This Concept takes into account the risk factor.

Limitations of Profit Maximisation:-
a) Vague
b) Ignores time value of money
c) Timings of benefits
d) Quality of benifits

Profit maximisation concept is suitable for
a) Self financing, private property & single owner firms.
b) A company is financed by shareholders, Creditors & financial institutions & is managed & controlled by professional managers
c) Apart from these people, there are some others who are interested towards company like Employees, govt, Customers & Society.

2. Wealth maximisation:-
Maximisation of wealth means maximisation of the wealth of the Company i.e, the net present worth of the company, over the long run.
The wealth maximised by the Company

Merits

1. The Concept of wealth maximisation is very clear & not vague
2. It considers the time value of money
3. This Concept takes into account the risk factor.

Limitations

1. Maximisation of wealth is subject to the Social responsibilities of the firm. The firm cannot ignore social responsibilities
2. Maximisation of wealth is also subject to govt restrictions. The various statutory provisions Enacted by the govt to protect the interest of the society to reduce the freedom of a business firm in its effort to maximise wealth
3. The Objective of WM is not Socially desirable

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

4	a)	If you deposit Rs 500 today @ 10% interest, in how many years, will the amount get double	(2)	C01, C02	L4,L3

(8)

Rs 500 $r = 10\%$ i.e $\underline{I = 10}$

Doubling period $DP = \frac{72}{I}$

$= \frac{72}{10}$

$= \underline{7.2 \text{ years}}$

also $DP = 0.35 + \frac{69}{I}$

$= 0.35 + \frac{69}{10}$

$= 0.35 + 6.9$

$= \underline{7.25 \text{ years}}$

b) 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.

FB) Rs 10,00,000

$r = 7\%$

$n = 6$ years.

Calculate installment amount & amortization schedule.

PCF = FCF_A X PVIFA (r, n)

10,00,000 = FCF_A X PVIFA(7%, 6 years)

10,00,000 = FCF_A X 4.7665

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

= 2,09,797.54 Rs ⇒ Installment amount

Loan amortisation schedule

Year	Annual installment	Interest 7%	Principal	Loan outstan
0	–	–	–	10,00,0
1	2,09,797.54	70,000	139,797.54	8,60,202
2	2,09,797.54	60,214.17	149,583.36	7,10,619
3	2,09,797.54	49,743.33	1,60,054.2	5,50,56
4	2,09,797.54	38,539.54	1,71,257.99	3,79,30
5	2,09,797.54	26,551.48	1,83,246.05	1,96,060.
6	2,09,797.54	13,736.72	1,96,060.82	–

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*