CBCS SCHEME

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18MBA22

Second Semester MBA Degree Examination, Feb./Mar. 2022
Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. *Answer any FOUR full questions from Q.No.1 to Q.No.7.*
2. *Question No. 8 is compulsory.*
3. *Use of Time Value table is permitted.*

1 a. What is Financing decision? **(03 Marks)**

b. Compute the following :

i) Mr. Dharshan deposits Rs 10,000 at the end of every year for 6 years at 6% interest. Determine how much money will be there at the end of 6^{th} year in the hands of Mr. Dharshan.

ii) Mr. X makes a deposit of Rs 20,000 in Canara Bank, which pays 8% interest compounded annually for 8 years. You are required to find out the amount to be received by him after 8 years. **(07 Marks)**

c. Anand Ltd., has currently on all equity structure consisting of 10000 equity shares of Rs 100 each. The management is planning to raise another Rs 20,00,000 to finance a major expansion programme and is considering 3 alternative methods of financing :

i) To issue 20000 equity shares of Rs 100 each.
ii) To issue 20000, 7% debentures of Rs 100 each.
iii) To issue 20000, 8% preference shares of Rs 100 each.

Anand Ltd., is expecting an operating profit of Rs 12,00,000 for the above financing. Assuming a corporate tax of 42%. Determine the EPS in each alternative and comment which alternative is best and why? **(10 Marks)**

2 a. Distinguish between Annuity and Annuity due. **(03 Marks)**

b. Briefly explain the factors that influence the dividend policy of a Company externally. **(07 Marks)**

c. A Company is planning to raise Equity , Preference and debt capital in the following proportion : Equity 50% , Preference capital 20% and debt capital 30%. The cost of the sources of finance for different levels of usage has been estimated as follows :

Source of Finance	Range of Financing (Rs in lakhs)	Costs (%)
Equity share capital	0 – 15	16
	15 – 25	17
	25 & above	18
Preference share capital	0 – 3	14
	3 & above	15
Debenture capital	1 – 20	8
	20 & above	10

Prepare Weighted Marginal cost of capital schedule. **(10 Marks)**

3 a. Distinguish between Independent and Mutually exclusive capital budgeting proposals. **(03 Marks)**

b. "Debt is the cheapest sources of Funds". Do you agree? Explain, **(07 Marks)**

c. Mr. Omprakash borrows Rs 5,00,000 at an interest rate of 14% P.a to purchase a car. The Bank provides him six annual installment facilities to repay the loan amount. You are required to calculate the following :
i) Total amount repayable to Bank including interest at the end of 6th year.
ii) Total interest amount payable by Mr. Omprakash.
iii) Prepare a Loan amortization schedule. **(10 Marks)**

4 a. State any six merits of adequate working capital in business. **(03 Marks)**
b. What is Risk Management? What are the ways of managing the risk in business? **(07 Marks)**
c. Select the following project on the basis of NPV and MIRR using Terminal Value Method.
Original Cash outlay : Rs 10000 ; Life of the project : 5 years
Cash in flow Rs 4000 each year for 5 years.
Cost of Capital : 10%.
Expected interest rates at which cash flows will be reinverted. **(10 Marks)**

Year end	(%) percentage
1	6
2	6
3	8
4	8
5	8

5 a. If you deposit Rs 50,000 on 1-6-2019 at 12% rate of interest , in how many years will this amount double? **(03 Marks)**
b. The selected financial data for X, Y and Z companies for the year ended 31-12-2018 are as follows :

Particulars	X	Y	Z
Variable expenses as a % percentage of sales	60	50	40
Interest (Rs)	2000	3000	4000
Operating Leverage	5 - 1	6 - 1	2 - 1
Financial Leverage	3 - 1	4 - 1	2 - 1
Income Tax	50%	50%	50%

Prepare Income statement for A, B and C Companies. **(07 Marks)**
c. Explain in detail the determinants of working capital. **(10 Marks)**

6 a. State any six principles of Capital Structure Planning. **(03 Marks)**
b. Briefly explain the steps involved in the Capital budgeting process. **(07 Marks)**
c. Lalitha & Co. wants to estimate the circulating capital for the upcoming project and it seeks your assistance. Add 15% to your computed figure to allow contingencies.

Particulars	Amount (Rs PV)
Estimated cost P.V. of production	
Raw materials	100
Direct labour	40
Overheads (Exclusive of depreciation of Rs 10 P.V)	50
Total Cost	190

Additional Information :

i) Selling price Rs 225 P.V.
ii) Level of activity 102000 units of production P.a.
iii) Raw materials in stock – average 4 weeks.
iv) WIP (assume 50% completion stage in respect of conversion costs and 100% completion of materials) – average 2 weeks.
v) Finished goods in stock – average 4 weeks.
vi) Credit allowed by suppliers – average 4 weeks.
vii) Lag in payment of wages – average 1.5 weeks.
viii) Cash at Bank is expected to be Rs 35000.

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads similarly. All sales are on credit basis only. **(10 Marks)**

7 a. Distinguish between Combined cost of capital and Marginal cost of capital. **(03 Marks)**

b. "Wealth maximization objective is superior to profit maximization objective". Do you agree? Elucidate. **(07 Marks)**

c. Sachin Ltd., has the following capital structure :

4000 Equity shares of Rs 100 each -- Rs 4,00,000
10% Preference shares -- Rs 1,00,000
11% Debentures -- Rs 5,00,000.

The current market price is Rs 102. The Company is expected to declare a dividend of Rs 10 at the end of the current year, with an expected growth rate of 10%.
The tax rate is applicable to 50%.
i) Calculate the cost of equity and WACC
ii) Assuming that the Company can raise Rs 3,00,000, 12% debentures. Find out the new WACC if Dividend rate is increased from 10 to 12%. Growth rate is reduced from 10 to 8% Market price is reduced to Rs 98. **(10 Marks)**

8 <u>CASE STUDY</u> :

a. A Company intends to replace an old machine with a new machine. From the following information, you are required to determine the Net cash outflow for such replacement.

Particulars	Rs / data
Cost of old machine	50000
Life of the old machine	5 years
Depreciation method followed	Original cost
Remaining useful life	2 years
Cost of new machine	70000
Installation charges	10000
Additional working capital required	5000
Amt. realized on sale of old machine	25000
Income tax	50 %
Capital gain tax	30 %
Investment allowance on new machine purchased	20 %

(08 Marks)

b. A Company is considering an investment proposal to install a new machine. The project will cost Rs 50,000 and will have a life of 5 years and no salvage value. Tax rate is 50%. Straight Line method of depreciation of providing depreciation is followed. Estimated Net Income before depreciation and tax from the proposed investment are :

Year	Net Income before Depreciation and Tax (Rs)
1	10,000
2	11,000
3	14,000
4	15,000
5	25,000

Evaluate the project using : i) NPV at 10 % ii) P.I at 10 %. **(12 Marks)**

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