CBCS SCHEME

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20MBA22

Second Semester MBA Degree Examination, July/August 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.*

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.

1 a. Define Financial Management. **(03 Marks)**
b. Explain the objectives of Financial Management. **(07 Marks)**
c. Write a note on long term sources of funds, which can be raised within India. **(10 Marks)**

2 a. Name various kinds of Financial Derivatives. **(03 Marks)**
b. Suppose you deposit Rs.1000 today in a bank which pays 10% interest compounded annually. How much will the deposit grow after 8 years and 12 years. **(07 Marks)**
c. Explain the various factors influencing working capital. **(10 Marks)**

3 a. What is Time Value of Money? **(03 Marks)**
b. Phoenix company borrows Rs.5,00,000 at an interest rate of 14%. The loan is to be repaid in 4 equal installments payable at the end of next 4 years. Prepare loan amortization schedule. **(07 Marks)**
c. GHCL Ltd. has on its books the following amounts and specific costs of each type of capital.

Type of capital	Book Value (Rs.)	Market Value (Rs.)	Specific Cost (%)
Debt	4,00,000	3,80,000	5
Preference shares	1,00,000	1,10,000	8
Equity shares	6,00,000	12,00,000 (equity + retained earnings)	15
Retained earnings	2,00,000	-	13
Total	13,00,000	16,90,000	

Determine the weighted Average Cost of capital using:
(i) Book Value Weights
(ii) Market Value Weights **(10 Marks)**

4 a. Name any three assumptions of CAPM. **(03 Marks)**
b. The following is the Balance sheet of Delta Corporation as on 31.03.2022.

Liabilities	Rs.	Assets	Rs.
Equity capital Rs.10 per share	1,80,000	Fixed Assets	4,50,000
10% Debentures	2,40,000	Current Assets	1,50,000
Retained earnings	60,000		
Current liability	1,20,000		
	6,00,000		6,00,000

The company's total assets turnover is 2.5 times. The fixed operating costs are 2 lakh, variable operating cost is 40%. Income tax is 50%. Calculate the :
(i) Operating Leverage
(ii) Financial Leverage
(iii) Combined Leverage **(07 Marks)**

c. Penta Four Ltd has currently in its capital structure equity shares of 15,000 of Rs.100 each. The management of the company is planning to raise another Rs.25,00,000 to finance a major expansion and is considering three alternative methods of financing.
   (i) To issue 25,000 8% debentures of Rs.100 each.
   (ii) To issue 25,000 equity shares of Rs.100 each
   (iii) To issue 25,000 8% preference shares of Rs.100 each
   The company's expected earnings before interest and tax will be Rs.8,00,000. Assuming Corporate tax rate of 50%, determine the Earnings Per Share (EPS) in each alternative and comment which alternative is best and why? **(10 Marks)**

5 a. Consider the following information for debentures of Multiplex Ltd. Face value Rs.1000, coupon rate 12%, the remaining period to maturity 4 years, current market price Rs.1040. Calculate Yield to Maturity (YTM). **(03 Marks)**
b. Explain the sources of working capital financing. **(07 Marks)**
c. Explain the factors influencing dividend policy of a firm. **(10 Marks)**

6 a. What is Behavioural Finance? **(03 Marks)**
b. Explain the main functions of financial management. **(07 Marks)**
c. From the following information relating to Ambuja Ltd, compute payback period and discounted payback period.
   Cost of the project – 50,000

Year	PAT	PV Factor @ 10%
1	5000	0.909
2	20000	0.826
3	30000	0.751
4	30000	0.683
5	10000	0.621

(10 Marks)

7 a. What is optimum capital structure? **(03 Marks)**
b. Explain the components of Indian Financial System. **(07 Marks)**
c. The following annual figures relating to Exide Co.

Particulars	Rs.
Sales (at two month's credit)	36,00,000
Materials consumed (suppliers extend two months credit)	9,00,000
Wages paid (monthly in arrear)	7,20,000
Manufacturing expenses outstanding at the end of the year (cash expenses paid one month in arrear)	80,000
Total administrative expenses, paid as above	2,40,000
Sales promotion expenses, paid quarterly in advance	1,20,000

The company sells its products at a gross profit of 25% counting depreciation as part of the cost of production. It keeps one month's stock each of raw materials and finished goods and a cash balance of Rs.1,00,000.
Assuming a 20% safety margin, calculate the working capital requirements of the company on cash cost basis. Ignore work-in-process. **(10 Marks)**

8 CASE STUDY (compulsory)

Sensera Ltd has to select one of the two alternative projects whose particulars are given below:

Particulars	Project A	Project B
Initial outlay	118720	100670
Net cash flow		
1	1,00,000	10,000
2	20,000	10,000
3	10,000	20,000
4	10,000	1,00,000

The company's cost of capital is 8%. Compute the NPV and IRR for each project and comment on the results. The P.V. factors of Re.1 received at the end of the year at different rates:

Year	8%	10%	12%	14%
1	0.926	0.909	0.893	0.877
2	0.857	0.826	0.797	0.769
3	0.794	0.751	0.712	0.675
4	0.735	0.683	0.636	0.592

(20 Marks)

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