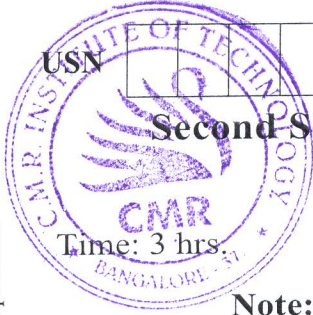


CBBCS SCHEME

20MBA22



Second Semester MBA Degree Examination, Dec.2023/Jan.2024 Financial Management

Max. Marks:100

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

- 1 a. What is Financial Engineering? (03 Marks)
b. Elucidate on the role of Finance Manager. (07 Marks)
c. If we were required to pay Rs 1,000 each for next 7 years for an item with an interest rate of 8%, what will be the present value of delayed annuity and perpetuity? (10 Marks)
- 2 a. What is Hybrid Financing? (03 Marks)
b. Write short note on : i) Angel Investors ii) Private Equity. (07 Marks)
c. Premier group of companies is considering an investment in a project requiring a capital outlay of Rs 2,00,000. Forecast of annual income from the project after depreciation but before tax are as follows :

Year	1	2	3	4	5
Income	1,00,000	1,00,000	80,000	80,000	50,000

Company's tax rate is 40% and charges 20% depreciation on original cost.

You are required to ascertain :

- i) Pay back period ii) Net present value using 15% cost of capital.

[Note : P.V. factors at 15% are : 0.870 , 0.756 , 0.658 , 0.572 , 0.497]. (10 Marks)

- 3 a. What are Derivatives? (03 Marks)
b. Briefly explain the assumptions of CAPM model. (07 Marks)
c. The capital structure of a company consists of an ordinary share capital of Rs 10,00,000 divided into shares of Rs 100 each and Rs 10,00,000 of 10% debenture. Sales increased by 20% from 1,00,000 units to 1,20,000 units , the selling price is Rs 10 per unit , Variable cost amounts to Rs 6 per unit and fixed expenses amount to Rs 2,00,000. The income tax rate is assumed to be 50%. You are required to calculate the following :
- i) The percentage increase in earnings per share.
ii) Financial leverage at 1,00,000 units and 1,20,000 units.
iii) Operating leverage at 1,00,000 units and 1,20,000 units.

Comment on the behavior of operating and financial leverage in relation to increase in production from 1,00,000 units to 1,20,000 units. (10 Marks)

- 4 a. What is constant dividend payout ratio? (03 Marks)
b. X Ltd issues Rs 50,000 , 8% debentures. The tax rate applicable to the company is 50%. Compute cost of debt capital if : i) Debentures are issued at Par value
ii) Debentures are issued at 10% premium. (07 Marks)
c. A firm has the following capital structure and after tax costs for the different sources of funds used :

Sources of funds	Amount (Rs)	Proportion (%)	After – tax cost (%)
Debt	4,50,000	30	7
Preference capital	3,75,000	25	10
Equity capital	6,75,000	45	15
	15,00,000	100	

- i) Calculate the weighted average cost of capital using book – value weights.
 ii) The firm wishes to raise further Rs 6,00,000 for the expansion of the project as below :

Debt	Rs 3,00,000
Preference capital	Rs 1,50,000
Equity capital	Rs 1,50,000

Assuming that specific costs do not change, compute the weighted marginal cost of capital.
 (10 Marks)

- 5 a. What is an Operating cycle? (03 Marks)
 b. X Ltd is considering the purchase of a machine. The cost of the machine is Rs 60,000. Net profit before tax and after depreciation during the expected life of the machine is given below :

Year	1	2	3	4	5
Cash flow	15,000	20,000	25,000	15,000	10,000

The average rate of tax may be taken at 50%. Calculate ARR. (07 Marks)

- c. Prepare an estimate of working capital requirements from the data of a trading concern.
 i) Projected annual sales – 80,000 units ii) Selling price – Rs 8 per unit
 iii) Percentage of profit – 20%
 iv) Average credit period allowed to debtors – 10 weeks.
 v) Average credit period allowed by suppliers – 8 weeks.
 vi) Average stock holding in terms of sales requirement – 10 weeks.
 vii) Allow 20% for contingencies. (10 Marks)
- 6 a. If the prevailing interest rate is 5% compounded annually, how much a person need to deposit to have Rs 10 lakh in 3 years? (03 Marks)
 b. What are the factors affecting Dividend policy? (07 Marks)
 c. Elucidate on how the financial system play an important role in the economic development of a nation. (10 Marks)
- 7 a. What is an Amortized loan? (03 Marks)
 b. A firm is considering an expenditure of Rs 60 lakhs for expanding its operations. The relevant information is as follows :

No. of existing equity shares	10 lakhs
Market value of existing shares	Rs 60
Net earnings	90 lakhs

Compute the cost of existing equity share capital and of new equity capital assuming that new shares will be issued at a price of Rs 52 per share and the costs of new issue will be Rs 2 per share. (07 Marks)

- c. What is Working Capital? What are the factors determining working capital requirements? (10 Marks)
- 8 **CASE STUDY (Compulsory) :**

A French Food processing Company needed to establish a new financial control group that would better serve its significantly changing needs, With 52% of its business in France, the company was looking to expand internationally and displayed strong growth. It had grown to 11 subsidiaries , including four outside France , in five distinct sectors of the Food industry, with revenue of 335 million dollars and a workforce of 850 people.

The new challenge Company is facing now. The Company's finance team, composed of 45 employees was divided into 3 departments : General Accounting and Financial control , Cash Management , and Information system. Its Finance control group was designed for a smaller business and had become unsuitable for what was now a diverse group of entities operating in different markets. While the group was producing a large amount of information, little of it was useful to Operations. But a variety of other factors contributed to this problem.

Questions :

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- a. As a Chief Finance Officer, what could be the strategic and operational aspects you would focus towards establishing a new financial control? (10 Marks)
- b. Elucidate on the key success factors that could contribute on introducing strong practical financial procedures? (10 Marks)
