

Internal Assessment Test – I

Sub:	Financial Management						Code:	22MBA22	
Date:	28.08.2024	Duration:	90 mins	Max Marks:	50	Sem:	II	Branch:	MBA
SET I									

	Marks	OBE	
		CO	RBT
Part A - Answer Any Two Full Questions (2* 20 = 40 marks)			
1 (a) Define the scope of financial management. The main components of financial management include financial planning, evaluation of alternative use of funds, capital budgeting, determination of cost of capital, determination of the financial standard for the success of the business, management of income, etc	[03]	CO1	L1
(b) Ms. Renu has 3 options to choose at the time of retirement. Suggest the best option. (i) Rs. 5,00,000 today (ii) Rs.10,00,000 after 5 years (iii)Rs. 75,000 every year forever Assume discount rate at 10%. (PVIF 10%, 5 Yrs = 0.621) (I) 5,00,000 (ii) 10,00,000/1.61051 = 6,20,921 (iii) 75000/0.1= Rs.7,50,000 Hence option (iii) is the best.	[07]	CO2	L3
(c) Recall profit maximization and wealth maximization. Which one has to be followed and why?	[10]	CO1	L1

Factors	Profit Maximisation	Wealth Maximisation
Motive	Maximising a company's profits.	Maximising the wealth shareholders.
Strategy Time Period	Short term	Long term
Maximisation Procedure	Increasing the business's earning capacity.	Enhancing stock value for stakeholders and shareholders.
Main Focus	Increasing a company's capacity to generate maximum returns with the minimum input.	Improving the business share price.
Time Value of Money	Does not acknowledge the time value of money.	Takes into account the time value of money.

2 (a) Associate financial management with accounting function.
 Financial management may refer to the practice of overseeing the financial structures of a company to improve its financial health. It helps the management of a company to make better decisions. The key elements of financial management include:
 Budgeting, planning, and forecasting
 Financial reporting
 Financial decisions

[03]

CO1

L2

(b) Consider that an investor has an opportunity of receiving Rs.10,000, Rs.15,000, Rs.8,000, Rs.11,000, Rs.4,000 respectively at the end of one through five years. Find out the present value of this stream of uneven cash flows, if the investor's interest rate is 8%. [Given PVIF 8%, I Year, 0.926, II Year, 0.857, III Year, 0.794, IV Year, 0.735, V Year, 0.681]
 $PV = 10000/(1.08) + 15000/(1.08)^2 + 8000/(1.08)^3 + 11000/(1.08)^4 + 4000/(1.08)^5$
 $= 9260 + 12855 + 6352 + 8085 = \text{Rs.}36,552.00$

[07]

CO2

L3

(c) Calculate weighted average cost of capital:

[10]

CO2

L3

Source	Amount	After Tax cost		
Equity Capital	6,00,000	13%		
Preference share capital	3,00,000	8%		
Debentures	2,40,000	5%		
Retained Earnings	60,000	9%		
Source	Amount	Proportion	After tax cot	Weighted cost

Equity Capital	6,00,000	0.50	0.13	0.065
Preference 1	3,00,000	0.25	0.08	0.02
Debentures	2,40,000	0.20	0.05	0.01
Retained Earnings	60,000	0.05	0.09	0.0045
	12,00,000	1.00		0.0995

WACC = 9.95%

3 (a) Tell the meaning of Lease Financing.

[03]

Lease financing is a contractual agreement between the owner of the asset who grants the other party the right to use the asset in return for a periodic payment and the other party who is the user of such assets.

CO1

L1

(b) Experiment any four functions of a financial manager, as applicable to present day financial management.

[07]

Financial Planning and Forecasting

Financial Management, refers to the procurement of funds and effectively managing and utilising the same in business, While the term “financial management Planning & forecasting” refers to the application of management principles to financial resources, in basic terms, it is

- Planning
- Organising
- Directing
- Controlling

Cash Management

The primary function of financial manager is to determine the revenue a company will need to reach its goals. When determining how much capital a company needs, the role of a finance manager includes estimating the size of the business, predicting profitability, and understanding company policies.

Determining the Capital Structure

When the capital requirement estimation is complete, one of the other major financial management functions is deciding on the capital composition. Both long-term and short-term debt equity research and analysis are involved in this function. It will mostly depend on the amount of equity capital that a company already has and the additional revenue required from other sources. The structure must be decided upon after assessing the necessary capital.

Funding Sources:

CO1

L2

Identifying the source of the capital is one of the next financial management functions. In order to raise capital in exchange for equity, the company may choose to contact investors, take bank loans, or hold an initial public offering (IPO). The advantages and restrictions of each funding source are taken into consideration while choosing and ranking them.

- (c) CBA co. borrows Rs.25,00,000 @ 16% and the loan has to be repaid in 8 equal instalments payable at the end of each next 8 years. Draw the loan amortization schedule. (Given : PVIFA (16%, 8 yrs.) 4.3436)

[10]

EMI = 575560.65

Payment	Interest	Principal	Balance
₹5,75,560.65	₹4,00,000.00	₹1,75,560.65	₹23,24,439.35
₹5,75,560.65	₹3,71,910.30	₹2,03,650.35	₹21,20,789.00
₹5,75,560.65	₹3,39,326.24	₹2,36,234.41	₹18,84,554.58
₹5,75,560.65	₹3,01,528.73	₹2,74,031.92	₹16,10,522.67
₹5,75,560.65	₹2,57,683.63	₹3,17,877.02	₹12,92,645.64
₹5,75,560.65	₹2,06,823.30	₹3,68,737.35	₹9,23,908.30
₹5,75,560.65	₹1,47,825.33	₹4,27,735.32	₹4,96,172.97
₹5,75,560.65	₹79,387.68	₹4,96,172.97	₹0.00

Part B - Compulsory (01*10=10 marks) CASE STUDY

4

The following is the capital structure of a company:

Source of Capital	Book Value	Market Value
Equity Shares @Rs.100 each	8,00,000	16,00,000
9% Cumulative Preference Shares @Rs.100 each	2,00,000	2,40,000
11% Debentures	6,00,000	6,60,000
Retained Earnings	4,00,000	--
Total	20,00,000	25,00,000

The current market price if the company's equity share is Rs.200. For the last year, the company had paid equity dividend at 25% and its dividend is likely to grow 5% every year. The corporate tax is 30% and shareholders personal income tax rate is 20%.

You are required to calculate:

- (i) Weighted Average Cost of Capital on the basis of book value weights [5]
(ii) Weighted Average Cost of Capital on the basis of market value weights. [5]

$$K_e = \frac{D}{MP} * 100 + g = \frac{26.25}{200} * 100 + 0.05 = \mathbf{18.25\%}$$

$$K_p = \frac{D}{NP} = \frac{9}{100} = \mathbf{9\%}$$

$$K_d (\text{after tax}) = \frac{I(1 - \text{tax rate})}{NP} = \frac{11(1 - 0.3)}{100} = \mathbf{7.7\%}$$

$$K_r = K_e(1 - t_p)(1 - b) = 18.125(1 - 0.2)(1 - 0) = \mathbf{14.5\%}$$

CO2	L3
CO2	L5
CO2	L5

Computation of WACC based on Book Value Weights

Source of Capital	Book Value	Weights	After tax cost	WACC
Equity Shares @Rs.100 each	8,00,000	0.4	18.125	7.25
9% Cumulative Preference Shares @Rs.100 each	2,00,000	0.1	9.000	0.90
11% Debentures	6,00,000	0.3	7.700	2.31
Retained Earnings	4,00,000	0.2	14.500	2.90
Total	20,00,000	100%		13.36%

Computation of WACC based on Market Value Weights

Source of Capital	Book Value	Weights	After tax cost	WACC
Equity Shares @Rs.100 each	16,00,000	0.640	18.125	11.600
9% Cumulative Preference Shares @Rs.100 each	2,40,000	0.096	9.000	0.864
11% Debentures	6,60,000	0.264	7.700	2.033
Retained Earnings	4,00,000	0.2	14.500	2.90
Total	20,00,000	100%		14.497%

Course Outcomes (COs)		PO1	PO2	PO3	PO4	PO5	PSO1	PSO2	PSO3	PSO4
CO1 :	Understand the basic financial concepts	1(a), 1(c), 2(a), 3(a), (b)	-	-	-	-				
CO2 :	Apply time value of money		1(b),2(b),2(c),3(c)	-	-	-		1(b), 2(b), 2(c),3(b)) 3(c)		

CO3 :	Evaluate the investment decisions	-	-	4(a), (b)	-	-				
CO4 :	Estimate working capital requirements									
CO5 :	Analyze the capital structure and dividend decisions									

Cognitive level	KEYWORDS
L1 - Remember	list, define, tell, describe, recite, recall, identify, show, label, tabulate, quote, name, who, when, where, etc.
L2 - Understand	describe, explain, paraphrase, restate, associate, contrast, summarize, differentiate interpret, discuss
L3 - Apply	calculate, predict, apply, solve, illustrate, use, demonstrate, determine, model, experiment, show, examine, modify
L4 - Analyze	classify, outline, break down, categorize, analyze, diagram, illustrate, infer, select
L5 - Evaluate	asses, decide, choose, rank, grade, test, measure, defend, recommend, convince, select, judge, support, conclude, argue, justify, compare, summarize, evaluate
L6 - Create	design, formulate, build, invent, create, compose, generate, derive, modify, develop, integrate

PO1–Theoretical Knowledge; PO2–Foster Analytical and Critical Thinking Abilities for data based decision making; PO3– Develop Value Based Leadership; PO4 –Ability to Understand and communicate various business aspects to global; PO5 – Ability to lead themselves and others in the achievement of organizational goals contributing effectively to a team environment;
PSO1- Comprehend Contemporary features of Business Management Science and its administration
PSO2- Analyze and interpret the dynamic situations for making Business Management strategies
PSO3- Handle responsibility with the ethical values for all actions undertaken by them
PSO4- Adapt and focus on achieving the organizational goal and objectives with complete zeal and commitment.

CI

CCI

HOD