CMR
INSTITUTE OF
TECHNOLOGY, BENGALURU

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Internal Assesment Test - II

Sub:	Financial Management							Code:	**MBA202**
Date:	**06/08/2025**	Duration:	**90 mts.**	Max Marks:	**50**	Sem:	**II**	Branch:	**MBA**
				SET- 1					

SCHEME OF EVALUATION

Marks | OBE: CO | RBT

Part A - Answer Any Two Full Questions (2* 20 = 40 marks)

1 (a) What is Financial BEP? State any two implications of Financial BEP. [03] CO5 L1

Solution:

Financial BEP is the level of EBIT (Earnings Before Interest and Tax) at which a company's EPS (Earnings Per Share) is zero.

- Risk Assessment Tool
- Financing Decision Guide

(b) A firm has sales of ₹75,00,000, variable cost of ₹42,00,000 and fixed cost of ₹6,00,000. It has a debt of ₹45,00,000 at 9% and equity of ₹55,00,000. [07] CO5 L4

a) What is the firm's ROI?
b) Does it have a favourable financial leverage?
c) If the firm belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage?
d) What are the operating, financial and combined leverages of the firm?

Solution:

a) ROI=27%
b) It has favorable financial leverage since the ROI (27% is higher than cost of debt (9%)
c) ATR = 0.75 times, which is lower than the industry average.
d) FL=1.1765 times; OL=1.22 times, CL=1.4379 times.

(c) Calculate the level of EBIT at which the indifference point between the following financial alternatives will occur. [10] CO5 L4

a) Ordinary share capital of ₹10 lakh or 15% debentures of ₹5 lakh and ordinary share capital of ₹5 lakh.
b) Ordinary share capital of ₹10 lakh or 13% preference share capital of ₹5 lakh and ordinary share capital of ₹5 lakh.
c) Ordinary share capital of ₹10 lakh or ordinary share capital of ₹5 lakh, 13% preference share capital of ₹2 lakh and 15% debentures of ₹3 lakh.

Assume that the corporate tax rate is 50% and the price of the common share is ₹10 in each case.

Solution:

Particulars	Financial Plan A	Financial Plan A	Financial Plan C
Capital Structure	E Vs D + E	E Vs P+E	E Vs E+P+D
EBIT	1,50,0000	2,60,000	1,94,000

2 (a) What is ‘dividend payout ratio’? Brief with a simple illustration. [03] CO5 L2

Solution:

The Dividend Payout Ratio is the percentage of a company’s net profit that is paid out to shareholders as dividends. It shows how much of the profit is shared with investors versus how much is retained in the business.

DPR=EPS/DPS×100

Suppose a company has EPS = ₹10 and DPS = ₹4, the DPR is calculated as follows:

DPR=4/10×100=40%

(b) The capital structure of a company consists of an ordinary share capital of ₹10,00,000 divided into shares of ₹100 each and ₹10,00,000 of 10% debenture. Sales increased by 20% from 1,00,000 units to 1,20,000 units, the selling price is ₹10 per unit, variable cost amounts to ₹6 per unit and fixed expenses amount to ₹2,00,000. The income tax rate is assumed to be 50%. You are required to calculate the following: [07] CO5 L4

(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 bahaviour of operating and financial leverage in relation to increase in production from 1,00,000 units to 1,20,000 units.

Solution:

Particulars	1,00,000 Units	1,20,000 Units
EBIT	2,00,000	2,80,000
EPS	₹5	₹9
OL	2.0	1.714
FL	2.0	1.556
% EPS	80%	

(c) A company’s capital structure consists of the following: [10] CO L4

Particulars	Amount (₹)
Equity shares of ₹100 each	20 Lakh
Retained earnings	10 Lakh
9% Preference shares	12 Lakh
7% Debentures	8 Lakh
Total	50 Lakh

The company earns 12% on its capital. The Income tax rate is 50%. The company requires a sum of ₹25 Lakhs to finance its expansion programme for which following alternatives are available to it:

a) Issue of 20,000 equity shares at a premium of ₹25 per share.

b) Issue of 10% preference shares

c) Issue of 8% debentures

It is estimated that the P/E ratios in the cases of equity, preference and debentures financing would be 21.4, 17 and 15.7 respectively. Which of the three financial alternatives would you recommend and why?

Solution:

Financial Plans	Equity (%)	Debt (%)	Preference (%)
A	80	20	-
B	30	50	20
C	50	-	50

3 (a) Define net working capital. Summarize any two sources of working capital for a new startup. [03] CO4 L2

Solution:

Net Working Capital = Current Assets − Current Liabilities

Owner's Equity and (ii) Trade Credit

(b) Assess the factors considered by an entrepreneur while estimating working capital requirements of a startup. [07] CO4 L5

Solution:

- Nature of business
- Market and Demand Conditions
- Production Policy
- Manufacturing Cycle
- Business Cycle
- Credit Policy
- Operating Efficiency

(c) TKM Co Ltd is presently operating at 60% level producing 36,000 units and proposes to increase capacity utilization in the coming year 30% over the existing level of production. The following data has been supplied: CO4 L3

a) The expected ratios of cost to selling price are:

Raw material	40%
Direct wages	20%
Overheads	20%

b) Selling price per unit ₹15

c) Raw materials will remain in stores for 1 month. Materials will remain in process for further one month.

d) Suppliers grant 2 months credit to the company and debtors are allowed 3 months credit.

e) Finished goods remain in godown for half month.

f) Lag in wages and overhead payment in two months.

Prepare a projected profitability statement and the working capital requirement at the new level, assuming that a minimum cash balance of ₹50,000 has to be maintained. [10]

Solution: CA = ₹ 3,07,400

CL = ₹ 93,600

NWC= ₹2,13,800

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

4 Modern Co Ltd is considering three financial plans. The key information is as follows: CO5 L5

(a) Toal funds to be raised ₹200 crores

(b) Financial Plans

Financial Plans	Equity (%)	Debt (%)	Preference (%)
A	80	20	-
B	30	50	20
C	50	-	50

(c) Rate of interest on debt 12%, Cost of preference shares 8%
(d) Corporate Tax rate 35%
(e) Equity shares of the face value of ₹10 each will be issued at a premium of ₹10 per share.
(f) Expected EBIT ₹80 crores

Determine the following:

(i) EPS under each financial plan.
(ii) Indifference points between financial plans A & B and A & C.

Solution:

Particulars	Financial Plan A	Financial Plan A	Financial Plan C
EPS	₹6.11	₹13.67	₹8.8
EBIT	AB: ₹24.19 Crores	AC: ₹24.82 Crores	

[10] CO3 L4

Course Outcomes (COs)		**PO1**	**PO2**	**PO3**	**PO4**	**PO5**	**PSO1**	**PSO2**	**PSO3**	**PSO4**
CO1:	Understand the basic financial concepts (L2)									
CO2:	Apply time value of money (L3)									
CO3:	Evaluate the investment decisions (L2)									
CO4:	Estimate working capital requirements (L3)	3(a) 3(b) 3(c) 4								
CO5:	Analyze the capital structure and dividend decisions (L4)		1(a) 1(b) 1(c) 2(a) 2(b) 2(c)							

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**