



Second Semester MBA Degree Examination, June/July 2025
Financial Management

Max. Marks: 100

Notes: 1. Answer any **FOUR** full questions from Q.No. 1 to Q.No. 7
 2. Question No. 8 is compulsory.
 3. M: Marks, L: Bloom's level, C: Course outcomes.

		M	L	C																		
Q.1	a.	3	L2	CO1																		
	b.	7	L2	CO1																		
	c.	10	L2	CO3																		
Birla company Ltd. is evaluating a project that has the following cash flow. The cost of capital is 15%. You are required to calculate the Modified Internal rate of return.																						
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Q.2	a.	3	L3	CO2																		
	b.	7	L2	CO3																		
	c.	10	L2	CO3																		
Maruti company borrows Rs.10,00,000 at the rate of interest 15% p.a, the loan is to be repaid 5 equal installments paid at the end of each year. Prepare the loan amortization schedule.																						
Q.3	a.	3	L2	CO3																		
	b.	7	L2	CO3																		
	c.	10	L2	CO1																		
Q.4	a.	3	L2	CO1																		
	b.	7	L2	CO3																		
A company is considering which of two mutually exclusive project it should undertake. The company anticipates a cost of capital of 5% and net after tax cash flows of the project are as follows :																						
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Calculate the NPV of each project , recommend which project is better.																						

c.	Akash ltd. has following details. Determine WACC.			10	L2	CO3									
	Sources of funds	Book value	Market value				Specific cost %								
	Debt	400000	380000				5								
	Preference	100000	110000				8								
	Retained earnings	200000	-				13								
Equity capital	600000	1200000	15												
Q.5	a.	If the interest rate is 8 percent , calculate the doubling periods as per the rule of 72 and the rule of 69 respectively.	3	L1	CO2										
	b.	Define financial management. Briefly explain the role of finance manager.	7	L2	CO1										
c.	The following information is available in respect of a product.			10	L4	CO5									
	<table border="1"> <tbody> <tr> <td>Units sold</td> <td>190000</td> </tr> <tr> <td>Unit sales price</td> <td>Rs.5</td> </tr> <tr> <td>Fixed cost</td> <td>Rs.250000</td> </tr> <tr> <td>Variable cost per unit</td> <td>Rs.1</td> </tr> <tr> <td>Tax rate</td> <td>50%</td> </tr> <tr> <td>10% Debt capital</td> <td>Rs.600000</td> </tr> </tbody> </table>		Units sold				190000	Unit sales price	Rs.5	Fixed cost	Rs.250000	Variable cost per unit	Rs.1	Tax rate	50%
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Q.6	a.	A company issues Rs.10 lakhs,10% redeemable debentures at a discount of 5%. The cost of floatation cost is Rs. 30000. The debentures are redeemable after 5 years at par. Calculate after tax cost of debt assuming tax rate of 50%.	3	L2	CO3										
	b.	Discuss the factors determining working capital.	7	L3	CO4										
c.	Prepare the estimate of working capital requirement from the following data of a trading concern: Raw materials -52, Direct labour-19.5, Overheads-39.5, Total cost-111, Profit-119.5, Selling price-130.			10	L3	CO4									
	<ul style="list-style-type: none"> Projected annual sales-70000 units Average raw materials in stock 1 month. Average materials in process ½ month. Credit allowed by suppliers -1 month. Credit period allowed to debtors -2 months. Time lag in payment of wages 1 ½ week Overhead Time lag 1 month. ¼ th of sales are on cash basis. Cash balances is Rs.120000(¼th purchased for cash). Allow 10% for contingencies. 														
Q.7	a.	A company issues 15% equity shares of Rs.10000 each and tax paid is 40%, brokerage is 3 %. Calculate the cost of retained earnings.	3	L2	CO3										
	b.	What are the factors that influence the dividend policy of a firm.	7	L2	CO3										

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	<p>c. From the following information calculate operating cycle and cash cycle: Sales-800, Cost of goods sold-720, Inventory : Opening Inventory-96, Closing Inventory-102 Accounts receivable : Opening receivable-86, Closing receivable-90, Accounts payable : Opening payable-56, Closing payable-60</p>	10	L4	CO5
Compulsory Questions				
Q.8	<p>Mr. M is considering a capital project with a following information : Investment outlay of the project is Rs100 million this consists of Rs.80 million on plant & machinery and Rs.20 million on net working capital. The project will be financed with Rs.45 million of equity capital, Rs.5 million of preference capital and 50 million of debt capital. Preference capital carry a dividend rate of 15 % and debt capital 15%. Life of the project is expected to be 5 years, at the end of 5 years fixed asset will fetch net salvage value of Rs.30 million, Project is expected to increase the revenue of the firm by Rs.120 million per year. Increase in cost is expected to be Rs.80 million per year (it includes all items of cost other than depreciation interest and tax). Tax rate will be 30 %. Plant and machinery will be depreciated at the rate of 25% per year WDV Method. Estimate the cash flow of the firm.</p>	20	L3	CO4

CBCS SCHEME

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MBA202

Second Semester MBA Degree Examination, June/July 2025 Financial Management

Time: 3 hrs.

Max. Marks: 100

Notes: 1. Answer any **FOUR** full questions from Q.No.1 to Q.No.7

2. Question No.8 is compulsory

3. M: Marks, L: Bloom's Level, C: Course Outcome

ANSWER KEY

		M	L	C																																			
Q.1	a.	3	L2	CO1																																			
	What are the objectives of Financial Management? Ans: Profit Maximization, Wealth Maximization (Shareholder Value), Ensuring Liquidity (Maintaining Adequate Cash Flow)																																						
	b.	7	L2	CO1																																			
State the difference between primary and secondary market. Ans: In primary market, new securities are issued and sold for the first time. In secondary market, existing securities are traded among investors.																																							
Q.2	c.	10	L2	CO3																																			
	Birla Company Ltd is evaluating a project that has the following cash flow. The cost of capital is 15%. You are required to calculate the Modified Internal Rate of Return. <table border="1" style="margin: 10px auto; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Year</td> <td style="padding: 2px;">0</td> <td style="padding: 2px;">1</td> <td style="padding: 2px;">2</td> <td style="padding: 2px;">3</td> <td style="padding: 2px;">4</td> <td style="padding: 2px;">5</td> <td style="padding: 2px;"></td> </tr> <tr> <td style="padding: 2px;">Cash Flow (in Millions)</td> <td style="padding: 2px;">-120</td> <td style="padding: 2px;">-80</td> <td style="padding: 2px;">20</td> <td style="padding: 2px;">60</td> <td style="padding: 2px;">80</td> <td style="padding: 2px;">100</td> <td style="padding: 2px;">120</td> </tr> </table> Ans: MIRR = 16.2% (approx.)		Year	0	1	2	3	4	5		Cash Flow (in Millions)	-120	-80	20	60	80	100	120																					
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Cash Flow (in Millions)	-120	-80	20	60	80	100	120																																
Q.2	a.	3	L3	CO2																																			
	What do you mean by Time Value of Money? Ans: Time Value of Money (TVM) means that the value of money changes over time. A rupee today is worth more than a rupee in the future because it can earn returns. It considers interest, inflation, and investment opportunities while comparing cash flows.																																						
	b.	7	L2	CO2																																			
An investor deposits Rs.20,000 in a Bank Account for 5 years at 8% interest. Calculate the amount he will have in his account if interest is compounded, (i) Annually, (ii) Semi-annually, (iii) Quarterly, (iv) Continuously Ans: (i) ₹29,386 (approx.) (ii) ₹29,604 (approx.) (iii) ₹29,720 (approx.) (iv) ₹29,836 (approx.)																																							
Q.3	c.	10	L3	CO3																																			
	Maruti company borrows Rs.10,00,000 at the rate of interest 15% p.a, the loan is to be repaid 5 equal installments paid at the end of each year. Prepare the loan amortization schedule. Ans: PMT = ₹298,315.55 (approx.) <table border="1" style="margin: 10px auto; border-collapse: collapse;"> <thead> <tr> <th>Year</th> <th>Beginning Balance</th> <th>Interest (15%)</th> <th>Payment</th> <th>Principal Repaid</th> <th>Ending Balance</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>₹1,000,000.00</td> <td>₹150,000.00</td> <td>₹298,315.55</td> <td>₹148,315.55</td> <td>₹851,684.45</td> </tr> <tr> <td>2</td> <td>₹851,684.45</td> <td>₹127,752.67</td> <td>₹298,315.55</td> <td>₹170,562.88</td> <td>₹681,121.57</td> </tr> <tr> <td>3</td> <td>₹681,121.57</td> <td>₹102,168.24</td> <td>₹298,315.55</td> <td>₹196,147.31</td> <td>₹484,974.26</td> </tr> <tr> <td>4</td> <td>₹484,974.26</td> <td>₹72,746.14</td> <td>₹298,315.55</td> <td>₹225,569.41</td> <td>₹259,404.85</td> </tr> <tr> <td>5</td> <td>₹259,404.85</td> <td>₹38,910.73</td> <td>₹298,315.58*</td> <td>₹259,404.85</td> <td>₹0.00</td> </tr> </tbody> </table> Total of payments = ₹1,491,577.78 Total interest paid = ₹491,577.78		Year	Beginning Balance	Interest (15%)	Payment	Principal Repaid	Ending Balance	1	₹1,000,000.00	₹150,000.00	₹298,315.55	₹148,315.55	₹851,684.45	2	₹851,684.45	₹127,752.67	₹298,315.55	₹170,562.88	₹681,121.57	3	₹681,121.57	₹102,168.24	₹298,315.55	₹196,147.31	₹484,974.26	4	₹484,974.26	₹72,746.14	₹298,315.55	₹225,569.41	₹259,404.85	5	₹259,404.85	₹38,910.73	₹298,315.58*	₹259,404.85	₹0.00	
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Q.3	a.	3	L2	CO3																																			
	Mr.Kapoor plans to send his daughter for higher studies abroad after 10 years. He expects the cost of these studies to be Rs.10,00,000. Calculate how much he would save annually to have a sum of Rs.10,00,000 at the end of 10 years, if the interest rate is 12 percent. Ans: Annual savings required = ₹57,000 (approx.)																																						
	b.	7	L2	CO3																																			
Explain the sources of financing Ans: Equity shares, preference shares, debentures, retained earnings, etc																																							
Q.4	c.	10	L2	CO1																																			
	Briefly explain the emerging areas in Financial Management. Ans: Behavioral Finance, FinTech and Digital Finance, Sustainable & Green Finance, Blockchain and Cryptocurrency Finance, Risk Analytics and Predictive Modeling																																						
Q.4	a.	3	L2	CO1																																			
What do you understand by Angel Investing?																																							

		Ans: Angel investing refers to wealthy individuals investing their personal funds in early-stage startups in exchange for ownership equity or convertible debt.																							
	b.	<p>A company is considering which of two mutually exclusive project it should undertake. The company anticipates a cost of capital of 5% and net after tax cash flows of the project are as follows:</p> <table border="1"> <thead> <tr> <th>Year</th> <th>0</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> </tr> </thead> <tbody> <tr> <td>Project X</td> <td>-30,000</td> <td>15,000</td> <td>15,000</td> <td>10,000</td> <td>10,000</td> </tr> <tr> <td>Project Y</td> <td>-40,000</td> <td>25,000</td> <td>20,000</td> <td>15,000</td> <td>10,000</td> </tr> </tbody> </table> <p>Calculate the NPV of each project, recommend which project is better. Ans: Project X: Total PV of inflows = 44,756; NPV=44,756–30,000=₹14,756 Project Y: Total PV of inflows = 63,134; NPV=63,134–40,000=₹23,134</p>	Year	0	1	2	3	4	Project X	-30,000	15,000	15,000	10,000	10,000	Project Y	-40,000	25,000	20,000	15,000	10,000	7	L2	CO3		
Year	0	1	2	3	4																				
Project X	-30,000	15,000	15,000	10,000	10,000																				
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	c.	<p>Akash Ltd has following details. Determine WACC.</p> <table border="1"> <thead> <tr> <th>Sources of Funds</th> <th>Book Value</th> <th>Market Value</th> <th>Specific Cost (%)</th> </tr> </thead> <tbody> <tr> <td>Debt</td> <td>4,00,000</td> <td>3,80,000</td> <td>5</td> </tr> <tr> <td>Preference</td> <td>1,00,000</td> <td>1,10,000</td> <td>8</td> </tr> <tr> <td>Retained Earnings</td> <td>2,00,000</td> <td>-</td> <td>13</td> </tr> <tr> <td>Equity Capital</td> <td>6,00,000</td> <td>12,00,000</td> <td>15</td> </tr> </tbody> </table> <p>Ans: WACC=12.372%</p>	Sources of Funds	Book Value	Market Value	Specific Cost (%)	Debt	4,00,000	3,80,000	5	Preference	1,00,000	1,10,000	8	Retained Earnings	2,00,000	-	13	Equity Capital	6,00,000	12,00,000	15	10	L2	CO3
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Q.5	a.	<p>If the interest rate is 8 percent, calculate the doubling periods as per the rule of 72 and the rule of 69 respectively. Ans: Rule of 72: 9 years; Rule of 69: 8.6 years</p>	3	L1	CO2																				
	b.	<p>Define financial management. Briefly explain the role of finance manager. Ans: Financial management refers to the planning, organizing, directing, and controlling of financial activities of an organization. It involves managing the firm's funds in a way that ensures profitability, liquidity, and long-term value maximization. Financial Planning and Forecasting, Investment Decisions (Capital Budgeting), Financing Decisions (Capital Structure), Working Capital Management, Dividend Decisions, and Risk Management</p>	7	L2	CO1																				
	c.	<p>The following information is available in respect of a product.</p> <table border="1"> <tbody> <tr> <td>Units sold</td> <td>1,90,000</td> </tr> <tr> <td>Unit sales price</td> <td>Rs.5</td> </tr> <tr> <td>Fixed cost</td> <td>Rs.2,50,000</td> </tr> <tr> <td>Variable cost per unit</td> <td>Rs.1</td> </tr> <tr> <td>Tax rate</td> <td>50%</td> </tr> <tr> <td>10% debt capital</td> <td>Rs.6,00,000</td> </tr> </tbody> </table> <p>Calculate OL, FL & CL. Ans: OL (DOL) = 1.49; FL (DFL) = 1.13; CL (DCL) = 1.69</p>	Units sold	1,90,000	Unit sales price	Rs.5	Fixed cost	Rs.2,50,000	Variable cost per unit	Rs.1	Tax rate	50%	10% debt capital	Rs.6,00,000	10	L4	CO5								
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	b.	<p>Discuss the factors determining working capital. Ans: Nature of Business, Size of Business, Production Cycle, Credit Policy, Inventory Policy, Operating Efficiency, Seasonal Variations, Market Conditions, Business Growth, Availability of Credit, Level of Competition and Inflation and Economic Conditions</p>	7	L3	CO4																				
	c.	<p>Prepare the estimate of working capital requirement from the following data of a trading concern: Raw materials-52, Direct labour-19.5, Overheads-39.5, Total cost-111, Profit-119.5, Selling price-130.</p> <ul style="list-style-type: none"> • Project annual sales-70,000 units • Average raw materials in stock 1 month. • Average materials in process 1/2 month. • Credit allowed by suppliers – 1 month 	10	L3	CO4																				

		<ul style="list-style-type: none"> • Credit period allowed to debtors – 2 months • Time lag in payment of wages 1 ½ week • Overhead time lag 1 month • ¼ th of sales are on cash basis. Cash balances is Rs.1,20,000 (1/4th purchased for cash) • Allo 10% for contingencies <p>Ans: Total Current Assets = ₹1,884,583.33; Total Current Liabilities= = ₹500,572.92; NWC= ₹1,384,010.41; Total working capital requirement=₹15,22,411</p>																	
Q.7	a.	<p>A company issues 15% equity shares of Rs.10,000 each and tax paid is 40%, brokerage is 3%. Calculate the cost of retained earnings.</p> <p>Ans: Cost of Retained Earnings = 15%</p>	3	L2	CO3														
	b.	<p>What are the factors that influence the dividend policy of a firm?</p> <p>Ans: Stability of Earnings, Liquidity Position, Future Growth Opportunities, Shareholder Preferences, Legal Restrictions, Tax Considerations, Access to Capital Markets, Inflation and Economic Conditions, Company’s Past Dividend Policy, Control Considerations, Internal Financial Policies, Contractual Restrictions (loan covenants)</p>	7	L2	CO3														
	c.	<p>From the following information, calculate operating cycle and cash cycle: Sales-800, Cost of goods sold-720, Inventory: Opening Inventory-96, Closing Inventory-102. Accounts receivable: Opening receivable-86, Closing receivable-90. Accounts payable: Opening payable-56, Closing payable-60</p> <p>Ans: Operating Cycle = 90.33 days & Cash Conversion Cycle = 60.93 days</p>	10	L4	CO5														
Compulsory Question																			
Q.8		<p>Mr.M is considering a capital project with a following information. Investment outlay of the project is Rs.100 million. This consists of Rs.80 million on plant & machinery and Rs.20 million on net working capital. The project will be financed with Rs.45 million of equity capital, Rs.5 million of preference capital and 50 million of debt capital. Preference capital carry a dividend rate of 15% and debt capital 15%. Life of the project is expected to be 5 years, at the end of 5 years fixed asset will fetch net salvage value of Rs.30 million, project is expected to increase the revenue of the firm by Rs.120 million per year. Increase in cost is expected to be Rs.80 million per year (it includes all items of cost other than depreciation interest and tax). Tax rate will be 30%. Plant and Machinery will be depreciated at the rate of 25% per year WDV method. Estimate the cash flow of the firm.</p> <p>Ans: Final Cash Flow of The Firm (FCFF)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Year</th> <th>0</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> </tr> </thead> <tbody> <tr> <td>Cash Flow (₹ million)</td> <td>-100.000</td> <td>34.000</td> <td>32.500</td> <td>31.375</td> <td>30.531</td> <td>76.593</td> </tr> </tbody> </table>	Year	0	1	2	3	4	5	Cash Flow (₹ million)	-100.000	34.000	32.500	31.375	30.531	76.593	20	L3	CO4
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Cash Flow (₹ million)	-100.000	34.000	32.500	31.375	30.531	76.593													