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14MBA22

Second Semester MBA Degree Examination, Dec.2016/Jan.2017
Financial Management

Time: 3 hrs.

Max. Marks:100

SECTION - A*Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 What do you understand by 'Angel Investing? (03 Marks)
- 2 Mr. X makes a deposit of Rs 10,000 in a bank which pays 8% interest compounded annually for 8 years. You are required to find out the amount to be received by him after 8 years. (03 Marks)
- 3 What is marginal cost of capital? (03 Marks)
- 4 A company is considering the purchase of a machinery costing Rs 36,000. The machine can reduce annual labour cost by Rs 6000. Calculate the payback period. (03 Marks)
- 5 What is operating cycle? (03 Marks)
- 6 What is optimum capital structure? (03 Marks)
- 7 Define financial engineering. (03 Marks)

SECTION - B*Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 Briefly explain the functions of Financial Management. (07 Marks)
- 2 What is private equity? Mention the advantages of private equity. (07 Marks)
- 3 Explain the capital budgeting process. (07 Marks)
- 4 An investor deposits Rs 200 in a bank account for 5 years at 8% interest. Find out the amount which he will have in his account if interest is compounded
 - i) Annually
 - ii) Semi – annually (6 month)
 - iii) Quarterly. (07 Marks)
- 5 A company issues Rs 10, 00,000, 10% redeemable debentures at a discount of 5%. The cost of floatation amounts to Rs 30,000. The debentures are redeemable after 5 years at par. Calculate after tax cost of debt assuming a tax rate of 50%. (07 Marks)
- 6 Calculate operating leverage, financial leverage and combined leverage from the following data :

Sales (1,00,000 units)	Rs 2,00,000
Variable cost per units	Rs 0.70
Fixed cost	Rs 65,000
Interest charges	Rs 15,000

 (07 Marks)
- 7 The following information is available in respect of a trading firm. :
 - i) On an average, debtors are collected after 15 days, inventories have an average holding period of 25 days and creditors' payment period on an average is 10 days.
 - ii) The firm spends a total of Rs 40 lakh annually at a constant rate.
 - iii) It can earn 10% on investment.
 For the above information, compute
 - a) The cash cycle
 - b) Cash turn over and
 - c) Minimum amount of cash to be maintained to meet payments as they become due
 - d) Savings by reducing the average inventory holding period by 10 days. (07 Marks)

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.

SECTION - C

Note : Answer any FOUR questions from Q.No.1 to Q.No.7.

- 1 Write short note on the following :
 - i) Lease financing, finance lease and operating lease (06 Marks)
 - ii) Venture capital (04 Marks)
- 2 Explain the basic approaches to determine an appropriate current asset financing mix. (10 Marks)
- 3 Explain the type of mergers. Also explain the major economic advantages of a merger. (10 Marks)
- 4 Given below is the summary of the balance sheet of the company as at 31st March 2016.

Liabilities	Amount	Assets	Amount
Equity share capital 20,000 shares of Rs 10 each	2,00,000	Fixed asset	4,00,000
Reserves and surplus	1,30,000	Investment	50,000
8% debentures	1,70,000	Current asset	2,00,000
current liabilities :			
Short term loans	1,00,000		
Trade creditors	50,000		
	6,50,000		6,50,000

You are required to calculate WACC of the company using Balance sheet valuation. The following additional information is also available :

- i) 8% debentures were issued at par
 - ii) All interest payment is up to date and equity dividend is currently 12%
 - iii) Short term loan carries interest 18% p.a
 - iv) The shares and debentures of the company are all quoted on stock exchange and current market prices are as follows :
 - Equity share Rs 14 each
 - 8% debentures Rs 98 each
 - v) The rate of tax for the company may be taken at 50%. (10 Marks)
- 5 The Directors of ABC Ltd., are contemplating the purchase of a machine: two alternative machines (old machine and new machine) are under consideration. Ignoring interest but considering tax at 50% of net earnings, calculate annual cash inflow from both the alternatives. The following are the details :

	Old machine	New machine
Purchase price	Rs 40,000	Rs 60,000
Estimated life of machine	10 years	10 years
Machine running hours per annum	2000 hrs	2000 hrs
Units per hour	24	36
Wages per running hour	Rs 3	Rs5.25
Power per annum	Rs 2,000	Rs 4,500
Consumable stores per annum	Rs 6000	Rs 7,500
All other charges per annum	Rs 8,000	Rs 9,000
Material cost per unit	Rs 0.50	Rs 0.50
Selling price per unit	Rs 1.25	Rs1.25

You may assume that the above information regarding sales and cost of sales will hold well through the economic life of each of the machines. (10 Marks)

- 6 A company has an investment opportunity costing Rs 40,000 with the following expected net cash inflows :

Year	Net cash inflows
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Determine the NPV and IRR of the investment opportunity. The cost of capital of the company is 10%.

(10 Marks)

- 7 If the discount/required rate is 10%, compute the present value of the cash flow streams detailed below :

- Rs 100 at the end of year 1 (one) ;
- Rs 100 at the end of year 4 ;
- Rs 100 at the end of i) year 3 and ii) year 5 and
- Rs 100 for the next 10 years (for years 1 through 10)

(10 Marks)

SECTION - D
CASE STUDY – [Compulsory]

The management of Arun Ltd has called for a statement showing the working capital needed to finance a level of activity of 3,00,000 units of output for the year. The cost structure for the company's product, for the above mentioned activity level, is detailed below :

	Per unit Rs
Raw – materials	20
Direct labour	5
Over heads	15
Total	40
Profit	10
Selling price/unit	50

- Past experience indicates that raw materials are held in stock, on an average for two months.
- Work-in-progress (100% complete is regard to materials and 50% for labour and overheads) will approximately be to half a month's production.
- Finished goods remain in warehouse, on an average for a month.
- Suppliers of materials extend a month's credit.
- Two months credit is allowed to debtors, calculation of debtors may be made at selling price.
- A minimum cash balance of Rs 25,000 is expected to be maintained.
- The production pattern is assumed to be even during the year.

Prepare the statement for working capital requirements.

(20 Marks)

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