

CBCS SCHEME

18MBA22

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Second Semester MBA Degree Examination, July/August 2021 Financial Management

Time: 3 hrs.

Max. Marks: 100

**Note: 1. Answer any FIVE full questions.
2. Use of time value table is permitted.**

- 1 a. What do you mean by Financial Market? (03 Marks)
b. Explain the objectives of Financial Management. (07 Marks)
c. A company raised a loan of Rs.10 lakh, rate of interest is 12%, loan is to be repaid in 5 equal installments paid at the end of each year. Prepare loan amortization schedule. (10 Marks)
- 2 a. What is time value of money? (03 Marks)
b. Explain different sources of financing. (07 Marks)
c. XYZ had the following capital structure:
i) Equity shares of Rs.10 each amounting to Rs.3,00,000, the market price of the share was Rs.75 and the dividend was 10%.
ii) 15% preference shares of Rs.100 each redeemable after 10 years at 10% premium. Total preference share capital was Rs.2,00,000.
iii) Rs.4,00,000 worth of 14% debentures of Rs.100 each redeemable at 5% premium after 5 years. The applicable tax rate was 30%. Calculate weighted average cost of capital. (10 Marks)
- 3 a. What is CAPM? (03 Marks)
b. Explain the factors influencing working capital requirements. (07 Marks)
c. A company is considering to install new machine at a cost of Rs.10,00,000. The life expectancy of the machine is 5 years and no salvage value. The tax rate is 30%. Firm uses straight line method of depreciation. The estimated cash inflows before depreciation and tax are as follows:
- | Year | 1 | 2 | 3 | 4 | 5 |
|-------|----------|----------|----------|----------|----------|
| CFBDT | 4,00,000 | 3,00,000 | 5,00,000 | 2,00,000 | 3,00,000 |
- Compute: i) PBP ii) ARR iii) NPV iv) PI. Consider discount rate of 10%. (10 Marks)
- 4 a. What is capital rationing? (03 Marks)
b. Explain the factors influencing dividend policy decisions of a company. (07 Marks)
c. Calculate operating leverage, financial leverage, combined leverage and EPS from the following information: Output 20,000 units, selling price Rs.80 per unit, variable cost Rs.30 per unit, fixed cost Rs.2,00,000, interest on loan Rs.1,00,000, preference dividend Rs.1,50,000, tax rate 50%, number of equity shares 40,000 shares of Rs.10 each. (10 Marks)
- 5 a. What do you mean by operating cycle? (03 Marks)
b. X deposits at the end of each year Rs.5,000, Rs.10,000, Rs.15,000, Rs.20,000 and Rs.25,000 in savings bank account in 1 to 5 years respectively. Interest rate is 6%, compounded annually. Calculate the future value of the end of 5 years. (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.

c. ABC Ltd. provides the following particulars for the year 2019-20.

i) Average Debtors	7,00,000
ii) Average period of audit allowed	20 days
iii) Raw materials consumed	48 lakh
iv) Cost of production	1.08 crore
v) Cost of goods sold	2.25 crores
vi) Credit sales	2.10 crores

Average inventory: Raw materials 4 lakh
Work in progress 3 lakh
Finished goods 5 lakh

Calculate operating cycle in a year. Assume 360 days in a year.

(10 Marks)

- 6 a. What do you mean by Behavioural Finance? (03 Marks)
b. A company has issued 13% preference shares of Rs.200 each redeemable after 5 years at a premium of 20%. Calculate the cost of preference shares if they are issued i) at par and ii) at 10% discount. (07 Marks)
c. Calculate:

- i) Future value of 1,000 deposited for 5 years in a bank, which earns interest at 9.5% p.a compounded semi-annually.
ii) Present value of Rs.1000 receivable after 10 years, assume discount rate at 10%.
iii) Present value of annuity of Rs.1,000 per annum for a period of 8 years, interest rate is 9% p.a.
iv) If we deposit Rs.50,000 at 7% rate of interest in how many years this amount will become double according to rule 72 and rule 69. (10 Marks)

- 7 a. What do you mean by stable dividend? (03 Marks)
b. XYZ Ltd. is considering the purchase of a machine costing Rs.3,00,000. Consider discount rate of 10% cash inflows are as follows:

Year	1	2	3	4	5
Cash in flow	20,000	65,000	90,000	1,50,000	1,75,000

Calculate discounted payback period.

(07 Marks)

- c. Explain the emerging role of Finance Manager. (10 Marks)

CASE STUDY

- 8 A cost sheet of a company provides following particulars:

Element of cost	Amount per unit (Rs.)
Raw materials	70
Direct labour	30
Overheads	50
Profit	50
Selling price	200

The following particulars are available:

- i) Raw materials will be in stock for one month.
ii) Materials are in process on an average for one month.
iii) Finished goods will be in stock for about two months.
iv) Credit allowed by creditors is two months.
v) Lag in payment of wages is one month.
vi) Lag in payment of overhead expenses is one month.
vii) 1/4 of the output is sold for cash.
viii) Cash in hand and at bank is expected to be Rs.50,000

You are required to prepare a statement showing working capital needed to finance a level of activity of 52,000 units of production. (20 Marks)

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