CBCS SCHEME

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18MBA22

Second Semester MBA Degree Examination, July/August 2022
Financial Management

Time: 3 hrs. Max. Marks:100

Note: *1. Answer any FOUR full questions from Q.No.1 to 7.*
2. Q.No. 8 is compulsory.
3. Use of FV and PV table is permitted.

1 a. What is Optimum Capital Structure? **(03 Marks)**

b. Define Gross Working capital. Explain the various factors influencing working capital requirement. **(07 Marks)**

c. After undertaking a survey that cost Rs.2,00,000 Chandra Ltd, decided to undertake a project for putting a new product in the market. The Company's cost of rate is 12%. It was estimated that the project would have a life of five years. The project would cost Rs.40,00,000 in plant and machinery in addition to working capital of Rs.10,00,000. The scrap value of plant and machinery at the end of 5 years was estimated at Rs.5,00,000. After providing for tax and depreciation on straight line basis profit and loss were estimated as follows:

Year	1	2	3	4	5
Rs.	3,00,000	8,00,000	13,00,000	5,00,000	4,00,000
PV@12%	0.8929	0.7972	0.7118	0.6355	0.5674

(10 Marks)

2 a. Define IRR. Why is IRR considered as a Discounting technique? **(03 Marks)**

b. Explain the factors affecting the dividend policy of an organization. **(07 Marks)**

c. Mohan Ltd. is presently operating at 60% level producing 36,000 packets of snack foods and proposes to increase its capacity utilization in the coming year by 20% over the existing level of production. The following data has been provided:

i. Unit cost structure of the product at current level:

Particulars	Amount (Rs)
Material	4
Wages (variable)	2
Overheads (variable)	2
Fixed Overhead	2
Profit	3
Selling Price	13

ii. Raw materials will remain in stores for 1 month before being issued for production material will remain in process for further 1 month. Suppliers grant 3 months credit to the company.

iii. Finished goods remain in godown for 1 month.

iv. Debtors are allowed credit for 2 months.

v. Average time lag in wages and overhead payments is 1 month and these expenses accrue evenly throughout the production cycle.

vi. Fixed overhead per unit include depreciation of one rupee per unit in present working (i.e., 60% level)

You are required to prepare the statement showing working capital requirement at the new level assuming that a minimum cash balance of Rs.19500 has to be maintained. **(10 Marks)**

3 a. What is Behavioral Finance? (03 Marks)
b. Briefly explain any seven long term sources of capital. (07 Marks)
c. Elaborate on the conflicts between Profit maximization and Wealth maximization. (10 Marks)

4 a. State any three differences between Money market and Capital market. (03 Marks)
b. Write a short note on Derivatives Market. (07 Marks)
c. Ms. Rekha has 3 options to choose at the time of retirement. Suggest the best option.
Receiving (i) Rs. 500000 today
(ii) Rs.10,00,000 after 5 years
(iii)Rs. 75000 every year forever
Assume discount rate at 10%. (10 Marks)

5 a. What are Warrants? (03 Marks)
b. A company issues 10% irredeemable preference shares. The face value per share is Rs.100, but the issue price is Rs.95. What is the cost of a preference share? What is the cost if the issue price is Rs.105? (07 Marks)
c. The following is the capital structure of a firm:

Source of finance	Amount (Rs.)	Proportion
Equity share	450000	45
Retained Earning	150000	15
Preference Share	100000	10
Debt	300000	30
	1000000	30

The firm's expected aftertax costs are as follows:

Source	Cost
Equity	18.0
Retained Earning	18.0
Preference	11.0
Debt	8.0

Calculate WACC [Weighted Average Cost of Capital]. (10 Marks)

6 a. What is a Bonus Share? (03 Marks)
b. Xavier has borrowed a 3 year loan of Rs. 10,000 at 9% from a bank to buy a Motorcycle. Draw a loan amortization schedule. (07 Marks)
c. A B Ltd. needs Rs. 10,00,000 for expansion. The expansion is expected to yield an annual EBIT of Rs.160000. In choosing a financial plan, AB Ltd. has an objective to maximize the EPS. It is considering the possibility of issuing equity shares and raising debt of Rs.100000 or Rs.400000. The current market price per share is Rs.25. Funds can be borrowed at the rate as below:
(i) Upto Rs.100000@8% (ii) Above 10000 @ 12%
Assume tax rate @ 50%. Determine EPS for both alternatives. (10 Marks)

7 a. Define Operating Cycle. (03 Marks)
b. Discuss emerging role of Finance Managers. (07 Marks)
c. Briefly enumerate the Financial System prevalent in India. (10 Marks)

8 Case Study (Compulsory) :

A company is currently considering modernization of a machine originally costing Rs.100000 that has a current book value of Rs. Zero. However it is in good working condition and can be sold for Rs.50,000. Two choices are available. One is to rehabilitate the existing machine at a total cost of Rs. 3,60,000 and the other is to replace the existing machine with a new machine costing Rs.4,20,000 and requiring Rs.60,000 to install. The rehabilitated machine as well as the new machine would have a six year life and no salvage value.

The firm's projected after tax profile under various alternative are as follows:

Year	Expected After Tax		
	Existing Machine (Rs.)	Rehabilitated Machine (Rs.)	Profits New Machine (Rs.)
1	400000	440000	480000
2	500000	580000	440000
3	620000	700000	700000
4	720000	800000	820000
5	820000	900000	860000
6	1000000	1080000	1020000

The firm is taxed at 55%. The company uses straight line depreciation. The company's cost of capital is 12%

Advise the company whether it should rehabilitate the existing or should replace it with a new machine. Also, state the situation in which the company would like to continue with the existing machine.

PV factor at 12%.

1 – 0.893 , 2 – 0.797 , 3 – 0.712 , 4 – 0.636 , 5 – 0.567 , 6 – 0.507 **(20 Marks)**

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