CBCS SCHEME

USN

20MBA22

Second Semester MBA Degree Examination, June/July 2023
Financial Management

Time: 3 hrs. Max. Marks:100

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

1 a. What is bahavioral finance? **(03 Marks)**
b. Write a short note on derivatives market. **(07 Marks)**
c. Suppose a firm borrows Rs.1,00,000 at an interest rate of 15% and the loan is payable in 5 equal installment at the end of each of next 5 years. **(10 Marks)**

2 a. State any three differences between Money Market and Capital Market. **(03 Marks)**
b. R and Co. has 5% irredeemable debentures of Rs.100 each for Rs.10,00,000. Tax rate is 35%. Determine Pre and Post tax debenture cost if it is issued at:
(i) Par (ii) 10% premium (iii) 10% discount **(07 Marks)**
c. Briefly explain the basic reasons why profit maximization fails to be inconsistent with wealth maximization. **(10 Marks)**

3 a. Suppose your company currently has 5000 employees and this number is expected to grow by 5% p.a. How many employees will your company have in 10 years? **(03 Marks)**
b. Briefly discuss functions of financial management. **(07 Marks)**
c. A company has to select one of the following two projects. The cash flows are as follows (CFAT).

Year	Project X	Project Y
0	11,000	10,000
1	6,000	1,000
2	2,000	1,000
3	1,000	2,000
4	5,000	10,000

Calculate IRR and suggest. **(10 Marks)**

4 a. What are warrants? **(03 Marks)**
b. Explain what is CAPM and its assumptions. **(07 Marks)**
c. A company has on its books the following amounts and specific cost of each type of capital.

Type of capital	Book value	Market value	Specific cost (%)
Debt	4,00,000	3,80,000	5
Preference	1,00,000	1,10,000	8
Equity	6,00,000	12,00,000	15
Retained earnings	2,00,000	-	13
	13,00,000	16,90,000	

Determining the weighted average cost of capital using:
(i) Book Value Weights
(ii) Market Value Weights **(10 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.

5 a. What is a Bonus Share? **(03 Marks)**

b. What are the various factors affecting Dividend Decisions? Briefly explain. **(07 Marks)**

c. The following information is available in respect of a product:

Units sold – 1,80,000
Units sales prices – Rs.5
Fixed cost – Rs.2,40,000
Variable cost per unit Re.1
Tax rate 50%.
10% debt capital of Rs.6,00,000
Calculate operating leverage, financial leverage and combined leverage. **(10 Marks)**

6 a. What is Optimal Capital Structure? **(03 Marks)**

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

c. A company has a capital of Rs.2,00,000 divided into shares of Rs.10 each. It has a major expansion plan requiring an investment of another Rs.1,00,000. The management is considering the following alternates for raising the amount.

(i) Issue of 10000 shares of Rs.10 each.
(ii) Issue of 10000 12% preference shares Rs.10 each.
(iii) Issue of 10% debentures of Rs.1,00,000.

The company's present earnings before interest and tax (EBIT) is Rs.60,000 p.a. You are required to calculate the effect of each of the above modes of financing on the EPS presuming:

- EBIT continues to be the same after expansion.
- Assume tax liability as 50%. **(10 Marks)**

7 a. What is NPV? **(03 Marks)**

b. Briefly explain any 7 sources of long term finance. **(07 Marks)**

c. Savarkar Ltd. is presently operating at 60% level, producing 36000 packets of snack foods and proposes to increases its capacity utilization in the coming year by 20% over the existing level of production. The following data is supplied:

(i) Unit cost structure of the product at current level.

Particulars	Rs.
Material	4
Wages (variable)	2
Overhead (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 remains 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 every throughout the production cycle.

(vi) Fixed overhead per unit includes depreciation of one rupee per unit in present working (i.e. 60% level) **(10 Marks)**

8 Following are two projects A and B which requires an investment of Rs.2,00,000 each. The income returns after tax for these projects are as follows:

Year	Project A	Project B
1	Rs. 80,000	Rs.20,000
2	Rs.80,000	Rs.40,000
3	Rs.40,000	Rs.40,000
4	Rs.20,000	Rs.40,000
5	-	Rs.60,000
6	-	Rs.60,000

Using the following criteria, determine which of projects is preferable.

(i) Payback period method.

(ii) Present value approach if the company's cost of capital is 10%.

Year	1	2	3	4	5	6
Disfactor	0.909	0.826	0.751	0.683	0.621	0.564

(20 Marks)

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