CBCS SCHEME

USN | | | | | | | | | | |

22MBA22

Second Semester MBA Degree Examination, Dec.2023/Jan.2024
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. M : Marks , L: Bloom's level , C: Course outcomes.
4. Use of PV/FV Table to be provided.

			M	L	C
Q.1	a.	What is Financial Engineering?	3	L2	CO1
	b.	A Finance Company advertises that it will pay a lumpsum of Rs 10,000 after 6 years to the investors who deposits annually Rs 1,000. What interest rate implicit in this offer?	7	L3	CO3
	c.	"Wealth Maximization is Superior to Profit Maximization". Explain.	10	L2	CO2
Q.2	a.	What is Time Value of Money?	3	L1	CO1
	b.	Mr. Vinay borrowed a vehicle loan of Rs 5,00,000 at an interest of 14% P.A. The loan should be repaid in 6 equal installments. Prepare Loan Amortization schedule.	7	L2	CO3
	c.	Explain the various sources of Long term sources of capital.	10	L1	CO3 CO2
Q.3	a.	A 4 year bond with 10% coupon rate of Rs 1000 is currently selling at Rs 900. Compute its YTM.	3	L2	CO2
	b.	Compute the cost of debt in the following situation. If coupon rate is 15% , Face value Rs 100 , Maturity – 10 years , Tax rate is 35%. Situations : i) Debentures redeemed at par at time of maturity and has flotation cost 5% on issue price. ii) Debentures redeemed at 5% discount at maturity and flotation cost is 5% on issue price. iii) Debentures redeemed at 10% premium at maturity and flotation cost is 5% on issue price.	7	L3	CO3
	c.	Compute Weighted Average Cost of Capital [WACC] from the following information extracted from PQR Limited. Balance sheet as of 31st March 2023	10	L5	CO3

Liabilities	Amount	Assets	Amount
Eq. shares [200,000 shares]	40,00,000	Fixed Assets	55,00,000
10% Preference shares	10,00,000	Current Assets	45,00,000
14% Debentures	30,00,000		
Current Liabilities	20,00,000		
Total	1,00,00,000	Total	1,00,00,000

		The share of Company sells for Rs 20. It is expected that Company will pay next year a dividend of Rs 2 per share which will grow at 7% forever. Assume tax rate 50%.			
Q.4	a.	What is Scrip Dividend?	3	L1	CO5
	b.	Explain the factors influence Dividend Policy of a firm.	7	L3	CO5
	c.	A firm's sales, variable costs and fixed costs amounts to Rs 55,00,000, Rs 28,00,000 and Rs 3,50,000 respectively. It borrowed Rs 25,00,000 at 9% and its equity capital is Rs 30,00,000 [100 Rs per share]. Tax at 40% for the company. 1. What is the Firms ROI? 2. What are the Operating, Financial and Combined Leverages? 3. What is the EPS of the firm? 4. What is the asset turnover of firm?	10	L4	CO5
Q.5	a.	What is Accounting Rate of Return?	3	L1	CO3
	b.	Compute Modified Internal Rate of Return from the following data : Cost of capital is 15%.	7	L5	CO3
	c.	Explain in detail the factors influence working capital requirements of the firm.	10	L4	CO4
Q.6	a.	What is Capital Rationing?	3	L1	CO3
	b.	Explain the various sources of working capital.	7	L3	CO4
	c.	A Company is considering an investment proposal to install a new machine at cost of Rs 50,000. The new machine is expected to have a life of 5 years with no salvage value. The firm uses SLM of depreciation. If tax rate is 35% and estimated cash inflows before depreciation and tax (CFBDT) from the investment proposal are as follows :	10	L5	CO3
Q.7	a.	What is Net Working Capital?	3	L1	CO4
	b.	From the following data compute the Internal Rate of Return (IRR). Assume the cost of capital is 13%.	7	L1	CO3

Year	0	1	2	3	4	5	6
Cash Outflow	120	80	-	-	-	-	-
Cash Inflow	-	-	20	60	80	100	120

Year	1	2	3	4	5
CFBDT (Rs)	10,000	10,692	12,769	13,462	20,385

Compute : i) PBP ii) NPV @ 10% iii) PI @ 10%.

Year	0	1	2	3	4	5
Cash Flows	(10,000)	3000	3500	3500	2500	2000

	c.	From the following information, compute discounted pay back period and average rate of return. Cost of project ⇒ 50,000 ⇒ Life of asset – 5 years.	10	L4	CO3

Year	1	2	3	4	5
PAT	5000	20000	30000	30000	10000
PV Factor @ 10%	0.909	0.826	0.751	0.683	0.621

Q.8 **CASE STUDY :**

The board of directors of Nanak Engineering Company Pvt. Ltd., request you to prepare a statement showing the working capital requirements for a level of activity at 1,56,000 units of production.

The following information is available for your calculation :

Particulars	Cost per unit (Rs)
Raw Material	90
Direct Labour	40
Over heads	75
Total	205
Profit	60
Selling Price Per Unit	265

Additional Information :		20	L5	CO5
a.	Raw material in stock , an average for one month.			
b.	Material in process (50% complete) an average for 4 weeks.			
c.	Finished goods are in stock, an average for one month.			
d.	Credit allowed by Suppliers in one month.			
e.	Time lag in payment for debtors is 2 month on sale price.			
f.	Average lag in payment of wages 1.5 weeks.			
g.	Average lag in payment of overhead is one month.			

20% of production sold against cash. Cash in Hand and Bank = 60,000 Rs. Production carried evenly through year. Margin of safety is 10%. Assume 4 weeks equal to one month.

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