



CBCS SCHEME

18MBA22

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Second Semester MBA Degree Examination, June/July 2019 Financial Management

Time: 3 hrs.

Max. Marks:100

**Note: 1. Answer any Four questions from Q.No. 1 to Q.No. 7.
2. Question No. 8 is compulsory.**

- 1
- a. What are Derivatives? (03 Marks)
 - b. State the differences between Angle Investing and Private Equity. (07 Marks)
 - c. i) A machine costing Rs 5,00,000 has an effective life of 10 years. However, after ten years, the cost of machine is expected to go up by 40%. A sinking fund has to be created for replacing the existing machine by a new one after 10 years. If the fund is invested at 10% p.a. , find out the amount to be transferred to this fund every year.
 - ii) A Company borrows a loan of Rs 5,00,000 at 12% interest p.a. The loan has to be repaid in 10 annual installments. Compute the installment amount. (10 Marks)

- 2
- a. What do you mean by Cost of Capital? (03 Marks)
 - b. Explain the steps in capital budgeting process. (07 Marks)
 - c. A firm has the following capital structure and after tax costs for the different sources of fund used.

Sources of Fund	Amount (Rs)	After tax cost (%)
Debt	450,000	7
Preference capital	375,000	10
Equity capital	675,000	15

- i) Calculate the WACC using book weights.
- ii) The firm wishes to raise Rs 600,000 for the expansion of the project as below :
Debt Rs 300,000 ; Preference Capital Rs 1,50,000 ; Equity capital Rs 1,50,000.
Assuming that specific costs do not change. Compute weighted Marginal cost of capital. (10 Marks)

- 3
- a. What are Financial Services? (03 Marks)
 - b. Discuss Current assets finance policy. (07 Marks)
 - c. Compute MIRR of the project. (10 Marks)

Year	0	1	2	3	4	5	6
Cash Flow (Rs)	(485,000)	85,400	96,500	132,600	216,000	124,000	98,500

- 4
- a. What is Behavioral Finance? (03 Marks)
 - b. Discuss the emerging role of Finance Managers. (07 Marks)
 - c. The selling price is Rs 85 per unit, Variable cost is Rs 60 per unit respectively. The annual fixed cost Rs 250,000. The firm sells 30,000 units p.a. The capital structure of the firm consists of long term debt of Rs 15,00,000 carrying 10% interest , 14% Preference shares of Rs 5,00,000 and 50,000 equity shares of Rs 10 each fully paid up. The tax rate is 30%. Compute the leverages and EPS. Also compute new EBIT, leverages and EPS, if the number of units sold i) decrease by 10% from the current level ii) increase by 20% from the current level. (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. Define Operating cycle. (03 Marks)
 b. Explain the factors affecting dividend policy decision of a Company. (07 Marks)
 c. Discuss the various sources of long term funds. (10 Marks)
- 6 a. Calculate the present value of repair expenses of Rs 20,000 p.a. which are assumed to be incurred continuously at 8% p.a. (03 Marks)
 b. A Company has issued 13% Preference shares of Rs 200 redeemable after 5 years at a premium of 20%. Calculate the cost of preference shares if they are issued at i) face value ii) 10 % discount. (07 Marks)
 c. Elucidate the factors influencing working capital requirements of a Company. (10 Marks)
- 7 a. Give the meaning of Capital Rationing. (03 Marks)
 b. From the following data compute Operating Cycle.

Rs in lakhs

Sales	80
Cost of goods sold	56

(07 Marks)

	Rs in lakhs (1.1.2019)	Rs in lakhs (31.1.2019)
Inventory	9	12
Accounts Receivables	12	15
Accounts Payable	7	10

- c. From the following information, compute i) PBP ii) ARR iii) NPV iv) PI.

Year	1	2	3	4	5
PBDT (Rs)	400,000	300,000	500,000	200,000	300,000
DFe 10%	0.909	0.826	0.751	0.683	0.621

Cost of the Project – Rs 10,00,000. Life 5 years, SLM of depreciation is followed.
 Tax Rate is 30%.

(10 Marks)

8 CASE STUDY(Compulsory) :

A cost sheet of a Company provides you the following information :

Elements of cost	Amount per unit (Rs)
Materials	80
Direct labour	30
Overheads (including depreciation) Rs 10	60
Total cost	170
Profit	30
Selling price	200

The following further information is available :

- Raw materials will be in stock for 1 month.
- Raw materials will be in process on an average for half a month.
- Finished goods will be in stock for about 1 month.
- Credit allowed by suppliers 1 month.
- Credit allowed to customers 2 month.
- Lag in payment of overheads is 1 month.
- Lag in payment of wages 1½ month.
- ¼ of output sold against cash.
- Cash in hand expected to be Rs 135000.

You are required to prepare a statement showing the working capital needed to finance level of activity of 208,000 units of production. (20 Marks)
