

# CBCS SCHEME

22MBA22



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

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. Time value table is permitted.  
4. M : Marks , L: Bloom's level , C: Course outcomes.*

			M	L	C																
Q.1	a.	What do you mean by Financial Management?	3	L2	CO1																
	b.	An executive is about to retire at the age of 60, his employer has offered him two post retirement options. i) 20,00,000 lump sum      ii) 2,50,000 for 10 years. Assuming 10% interest which is a better option.	7	L4	CO2																
	c.	XYZ Company borrows Rs 10,00,000 at the rate of interest 15% p.a. The loan is to be repaid 5 equal Annual instalments paid at the end of each year. Prepare Loan amortization Schedule.	10	L4	CO4																
Q.2	a.	What is Time value of Money?	3	L2	CO1																
	b.	Discuss the factors determining working capital.	7	L3	CO2																
	c.	Explain in detail the Indian Financial System.	10	L4	CO4																
Q.3	a.	What is CAPM?	3	L2	CO1																
	b.	Pentagon Ltd., is evaluating a project that has the following cash flow stream associated with it. <table border="1" style="margin: 5px auto; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Year</td> <td style="padding: 2px;">0</td> <td style="padding: 2px;">1</td> <td style="padding: 2px;">2</td> <td style="padding: 2px;">3</td> <td style="padding: 2px;">4</td> <td style="padding: 2px;">5</td> <td style="padding: 2px;">6</td> </tr> <tr> <td style="padding: 2px;">Cash flow (Rs in millions)</td> <td style="padding: 2px;">120</td> <td style="padding: 2px;">- 80</td> <td style="padding: 2px;">20</td> <td style="padding: 2px;">60</td> <td style="padding: 2px;">80</td> <td style="padding: 2px;">100</td> <td style="padding: 2px;">120</td> </tr> </table> The cost of capital is 15%. You are required to calculate the Modified Internal Rate of Return (MIRR).	Year	0	1	2	3	4	5	6	Cash flow (Rs in millions)	120	- 80	20	60	80	100	120	7	L5	CO3
	Year	0	1	2	3	4	5	6													
Cash flow (Rs in millions)	120	- 80	20	60	80	100	120														
c.	Discuss various factors affecting the dividend policy of an organization.	10	L4	CO4																	
Q.4	a.	What is an Operating Cycle?	3	L2	CO1																
	b.	The following information is available in respect of a product : <table border="1" style="margin: 5px auto; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Units sold</td> <td style="padding: 2px;">: 1,80,000</td> </tr> <tr> <td style="padding: 2px;">Unit sales price</td> <td style="padding: 2px;">: Rs 5</td> </tr> <tr> <td style="padding: 2px;">Fixed cost</td> <td style="padding: 2px;">: Rs 2,40,000</td> </tr> <tr> <td style="padding: 2px;">Variable cost per unit</td> <td style="padding: 2px;">: Re 1</td> </tr> <tr> <td style="padding: 2px;">Tax rate</td> <td style="padding: 2px;">: 50%</td> </tr> <tr> <td style="padding: 2px;">10% Debt capital</td> <td style="padding: 2px;">: Rs 6,00,000</td> </tr> </table> Calculate Operating Leverage , Financial and Combined Leverage.	Units sold	: 1,80,000	Unit sales price	: Rs 5	Fixed cost	: Rs 2,40,000	Variable cost per unit	: Re 1	Tax rate	: 50%	10% Debt capital	: Rs 6,00,000	7	L3	CO2				
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	c.	A Company is considering an investment proposal to install new milling controls at a cost of Rs 50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows :	10	L5	CO3																														
		<table border="1"> <thead> <tr> <th>Year</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> </tr> </thead> <tbody> <tr> <td>CFBT (Rs)</td> <td>10,000</td> <td>10,692</td> <td>12,769</td> <td>13,462</td> <td>20,385</td> </tr> </tbody> </table> <p>Compute the following : i) Pay back period ii) Accounting Rate of Return      iii) NPV at 10% discount rate.</p>	Year	1	2	3	4	5	CFBT (Rs)	10,000	10,692	12,769	13,462	20,385																					
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Q.5	a.	What is Financial Engineering?	3	L2	CO1																														
	b.	A Company has 10% perpetual Debtor Irredeemable debt of Rs 1,00,000. The tax rate is 35%. Determine the cost of capital (before tax and after tax) assuming the debt is issued at i) par      ii) 10% discount iii) 10% premium.	7	L3	CO2																														
	c.	From the following data, compute the duration of the operating cycle for each of the two years :	10	L4	CO4																														
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Q.6	a.	What is IRR?	3	L2	CO1																														
	b.	Briefly explain the emerging role of Finance Manager.	7	L3	CO2																														
	c.	A Company has on its books the following amounts and specific costs of each type of capital :	10	L4	CO4																														
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Q.7	a.	What do you mean by Capital Budgeting?	3	L2	CO1
	b.	Explain the types of derivatives.	7	L3	CO2
	c.	India Ltd., is capitalized with Rs 10,00,000 divided into 1,00,000 equity shares of Rs 10 each. The management desires to raise another Rs 10,00,000 to finance a major expansion programmes. There are 4 possible financial plans. i) All equity shares                      ii) All debentures carrying 8% interest iii) Rs 5,00,000 in equity shares and Rs 5,00,000 in debentures carrying 10% interest. iv) Rs 5,00,000 in equity shares and Rs 5,00,000 in 10% preference shares. You are required to calculate EPS if the EBIT of Rs 4,80,000.	10	L4	CO4

Q.8	<b>CASE STUDY – (Compulsory)</b>			20	L4	CO4																
<p>While preparing a project report on behalf of a client you have collected the following facts. Estimate the Net Working capital required for that project. Add 10% to your computed figure to allow contingencies :</p> <table border="1" data-bbox="406 929 1128 1243"> <thead> <tr> <th>Particulars</th> <th>Per Unit (Rs)</th> </tr> </thead> <tbody> <tr> <td><u>Estimated cost per unit of production :</u></td> <td></td> </tr> <tr> <td>Raw Materials</td> <td>80.00</td> </tr> <tr> <td>Direct Labour</td> <td>30.00</td> </tr> <tr> <td>Overheads (exclusive of Depreciation, Rs 10 per Unit)</td> <td>60.00</td> </tr> <tr> <td>Total cash cost</td> <td>170.00</td> </tr> <tr> <td>Profit</td> <td>30.00</td> </tr> <tr> <td>Selling price</td> <td>200.00</td> </tr> </tbody> </table> <p>Additional Information :</p> <ol style="list-style-type: none"> <li>Level of activity, 1,04,000 units of production per annum.</li> <li>Raw materials in stocks, average 4 weeks.</li> <li>Work in progress (assume 50% completion stage in respect of conversion costs and 100% completion in respect to materials), average 2 weeks.</li> <li>Finished goods in stock, average 4 weeks.</li> <li>Credit allowed by suppliers 4 weeks.</li> <li>Credit allowed to debtors, average 8 weeks.</li> <li>Lag in payment of wages, average 1.5 weeks.</li> <li>Cash at Banks is expected to be Rs 25,000.</li> </ol> <p>You may assume that production is carried on evenly through out the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.</p>							Particulars	Per Unit (Rs)	<u>Estimated cost per unit of production :</u>		Raw Materials	80.00	Direct Labour	30.00	Overheads (exclusive of Depreciation, Rs 10 per Unit)	60.00	Total cash cost	170.00	Profit	30.00	Selling price	200.00
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