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P.E.S. College of Engineering, Mandya - 571 401

(An Autonomous Institution affiliated to VTU, Belagavi)

Second Semester, Master of Business Administration (MBA)

Semester End Examination; May/June - 2018

Financial Management

Time: 3 hrs *Max. Marks: 100*

***Note**: i) Answer all **FOUR** full questions from **PART - A** and **PART - B** (Case study) is compulsory.*
ii) PV and FV Tables shall be allowed.

PART - A

1 a. Describe the concept and functions of financial management. 10

b. Justify that shareholder's wealth maximization concept should be the objective of financial management. 10

OR

2 a. Explain the functions of a financial system. 10

b. What is Behavioural finance? Explain theories of Behavioural finance. 10

3 a. Explain the importance and scope of compounding and discounting principles of Time value of money. 10

b. (i) Mr. Mohan bought a share 15 years ago for `10. It is now selling for `27.60. What is the compounded growth rate in the prices of shares?

(ii) Futura Ltd has an obligation to redeem `500 million bonds 6 years hence. How much should the company deposit annually in a sinking funding A/c where in it earns 14% interest, to cumulate `500 million in 6 years time? 10

OR

4 a. At the end of 8 years, how much an initial deposit of `2000 will grow, if interest rate is 12%? Find out terminal flows, if compounded annually, half yearly, quarterly, monthly, weekly and daily? 10

b. You borrowed `50,000 at 10% for 5 years. Calculate the equal annual installment to be paid to repay the entire loan including interest. Also show loan amortization schedule. 10

5. Following is the capital structure of ABC Ltd. 20

	Sources	Amount (`)
1.	Equity Share capital [1,00,000 shares of `10/-]	10,00,000
2.	16% preference share capital	8,00,000
3.	15.5% Debentures	50,00,000
4.	15% Bank Loan [Long term]	18,00,000
5.	14% Bank Loan [Short term]	14,00,000
6.	Creditors	6,00,000

Contd…2

a) Equity share includes existing 60,000 shares having the market value `40 per share and balance of shares is newly issued at this Market Price with flotation cost `5 per share. DPS is `5 which is expected to grow by 10% forever. Given DPS is expected DPS.

b) Corporate tax is 35%

c) Market value of preference share is ` 8,50,000

Calculate overall cost of capital based on (i) Book value (ii) Market value

OR

6 a. Compare the various sources of Long term capital. 10

b. Explain the process of capital budgeting. 10

7 a. Explain the principles of cash flow estimation. 10

b. Explain the determinants of working capital requirements. 10

OR

8 a. The relevant financial information for Xavier Limited for the year ended 20x1is given below:

P & L A/c data (in crores)

Sales = `80

Cost of goods sold = `56

Balance sheet Data (in crores) 10

	@ Beginning	@ End
Inventory	9	12
Accounts Receivable	12	16
Accounts Payable	7	10

What is the length of the operating cycle and the cash cycle? Assume 365 days a year.

b. Max Limited sells goods at a profit marging of 25% counting depreciation as a part of the cost of manufacture. Its annual figures are as follows: 10

Sales [Two months credit is given]	` 240 million
Material Cost [Supplliers give 3 months credit]	72
Wages [are paid one month in arrears]	48
Manufacturing expenses. Outstanding at the year [Cash expenses are paid one month in arrears]	4
Administrative and Sales expenses [these are paid as incurred]	30

Max Limited keeps two months's stock of raw materials and one month's stock of finished goods. It wants to maintain a cash balance of ` 5 million. Estimate the requirement of working capital on cash cost basis, assuming a 10% safety margin, ignoring work-in- process.

Contd…3

PART - B (Case Study) Compulsory

9. Royal Ltd. is not able to meet existing market demand for which installation of a new machine is considered essential to meet market demand. The machine is expected to cost `1,50,000. Additional working capital required are `50,000 in the first year & `1,00,000 at the end of III year.

   Expected Sales is ` 2,00,000 per annum which is expected to grow by 20% every year from III year onwards. PV ratio is 0.4, Tax is 35%.

   The machine is expected to have useful life of 5 years with scrap value of ` 30,000. Machine is to be depreciated by 20% per annum. There are no other assets in the block. The expected rate of return to meet the overall cost of capital is 10%. Annual fixed cost is ` 50,000.

   Questions:

   a. Estimate the cash flows that are expected from new machine. 5

   b. Calculate payback period and profitability index. 5

   c. Calculate NPV and recommend the company whether to install the machine. 10

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