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P.E.S. College of Engineering, Mandya - 571 401
 (An Autonomous Institution affiliated to VTU, Belagavi)
Eighth Semester, B.E. - Semester End Examination; July - 2021
Financial Management

Time: 3 hrs

Max. Marks: 100

Note: Answer any FIVE full questions.

- 1 a. What is Financial Management? Explain the changing role of financial manager. 10
 b. Explain forms of business organization. 10
 2 a. What is CAPM? Explain implication and assumption of CAPM. 10
 b. Differentiate between Capital and Money market. 10
 3 a. Explain Regulating infrastructure in India:
 i) RBI and its function 10
 ii) SEBI and its function
 b. A Ltd. is considering the purchase of new machine which will cost ` 400000. It is estimated that the machine will have a life of 7 years at the end of which, it will have scrap value of ` 10000. This will also involve an investment of working capital of ` 100000/-.

The net post tax cash flows which the machine produces are as follows:

Year	Cash inflows	PVIF @ 15%
1	100000	0.870
2	100000	0.756
3	140000	0.658
4	130000	0.572
5	110000	0.497
6	120000	0.432
7	100000	0.376

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The company has a target return of 15% on this basis. You are required to prepare a statement evaluating the above project using NPV method.

- 4 a. i) What are the steps involved in investment decision process?
 ii) MS Ltd. is evaluating a project which involves initial investment of ` 120000/-. After tax cash flows from the project are given below:

Year	1	2	3	4	5	6
Cash Flow	85,000	96500	1,32600	2,16,000	1,24,000	98500

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What is the MIRR if the cash flows are reinvested @ 12%?

b. A company has to select one of two alternative projects whose particulars are given below:

Particulars	Initial investment	Net cash flows			
		1	2	3	4
Project A	1,18,720	1,00,000	20,000	10,000	10,000
Project B	1,00,760	10,000	10,000	20,000	1,00,000

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The company can arrange necessary funds @ 8%. Compute the payback period and NPV of each project. Comment on the result.

5 a. What is preference shares? Explain different types of preference shares. 10

b. Explain long term source of finance. 10

6 a. Briefly explain the factors influencing the working capital. 10

b. From the following information extracted from the books of manufacturing concern.

Compute operating cycle and cash cycle:

Period covered	365 days
Average credit allowed by supplier	16 days
Average of total debtors outstanding	` 480
Raw material consumption	` 4400
Total production costs	10,000
Total cost of goods sold for the year	10,500
Sales for the year	16,000
Value of average stock maintained	
Raw material	320
Work-in-progress	350
Finished goods	260

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7 a. Explain the concept of working capital. 10

b. Explain source of financing working capital requirements. 10

8 a. What is derivative? Explain the functions of derivatives. 10

b. Explain derivative market players and factors causing growth of derivatives. 10

9 a. Explain derivative instruments in detail. 10

b. What is forex market? What are the major determinants of exchange rate. 10

10 a. Differentiate between interest rate parity, purchasing rate parity and Fishers effect. 10

b. Explain in detail foreign exchange exposure. 10

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