



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; October -2022

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) Scientific calculator, PV and FV tables shall be allowed.

Q. No.	Questions	Marks	BLs	COs												
PART - A																
1 a.	Critically analyse why wealth maximization is superior to profit maximization?	10	L5	CO1												
b.	Explain the changing role of a finance manager.	10	L2	CO1												
OR																
2 a.	Discuss the functions and role of a financial system in India.	10	L6	CO1												
b.	Classify the financial markets and explain the different securities traded in each market.	10	L4	CO1												
3 a.	What is the present value of the following cash stream, if the discount rate is 14%?	10	L3	CO2												
<table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Year</th> <th>0</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> </tr> </thead> <tbody> <tr> <td>Cash flow</td> <td>5000</td> <td>6000</td> <td>8000</td> <td>9000</td> <td>8000</td> </tr> </tbody> </table>					Year	0	1	2	3	4	Cash flow	5000	6000	8000	9000	8000
Year	0	1	2	3	4											
Cash flow	5000	6000	8000	9000	8000											
b.	i) What is the present value of Rs. 10,00,000 receivable 60 years from now, if the discount rate is 10%?	5	L5	CO2												
	ii) Fifteen annual payments of Rs. 5000 are made into a deposit account that pays 14% interest per year. What is the future value of this annuity at the end of 15 years?	5	L5	CO2												
OR																
4 a.	The lease rentals for a 5 year contract are Rs. 300. The total rent need to be paid for a period of next five years is Rs. 1000. Find out the interest rate the party pays here and show rent amortization schedule.	10	L5	CO2												
b.	At the end of 8 years, how much an initial deposit of Rs. 2000/- will grow, if interest rate is 12%, find out the terminal cash flows if compounding is done annually, semi-annually, quarterly and monthly.	10	L5	CO2												
5 a.	Elaborate the factors affecting the weighted average cost of capital.	10	L6	CO3												
b.	Estimate the required rate of return on equity stocks using CAPM approach. Risk free rate of return is 10% Return on Market is 18% Beta is 0.5, 1.0 and 1.5	10	L6	CO3												

OR

6. From the following capital structure of Samsung Ltd.

Capital structure	Amount
Equity share capital (100,000 Eq. shares of Rs. 10/-)	10,00,000
16% Preference share capital	8,00,000
15.5% Debenture	50,00,000
15% Bank Loan	18,00,000

Additional Information:

- i) Equity share includes existing 60,000/-shares having the market value of Rs. 40 per share and balance of shares are newly issued at this market price with flotation cost of Rs. 5 per share. Dividend per share (DPS) is Rs. 5 which is expected to grow by 10% forever. Given DPS is expected DPS 20 L6 CO3
- ii) Corporate tax is 35%
- iii) Market value of preference shares is Rs. 8,50,000

Estimate overall cost of capital based on market value and book value.

- 7 a. Explain factors influencing working capital requirements. 10 L5 CO2
- b. From the following information extracted from a manufacturing concern, estimate operating and cash cycle in days;
- Period covered → 360 days
 - Average period of credit allowed by suppliers → 16 days
 - Average total debtors outstanding → Rs. 480
 - Raw material consumed → Rs. 4400
 - Total Production cost → Rs. 10,000 10 L5 CO2
 - Total cost of sales → Rs. 10,500
 - Sales for the year → Rs. 16,000
 - Value of Average stock maintained
 - Raw material → Rs. 320
 - WIP → Rs. 350
 - Finished goods → Rs. 260

OR

- 8 a. XYZ Ltd is desired to purchase a business and has contacted you for advice them on working capital requirement. You are given the following estimate and are instructed to add 10% to your computed figures to allow for contingencies. 10 L6 CO2

- i) Average amount of stock :
 - Stock of finished goods Rs. 5,000
 - Stock of Raw material Rs. 8,000
- ii) Average credit given :
 - Inland Sales 6 weeks credit Rs. 3,12,000
 - Export sales 1.5 weeks credit Rs. 78,000
- iii) Average Time lag in payment :
 - Wages 1.5 weeks Rs. 2,60,000
 - Stock and Materials 1.5 months Rs. 48,000
 - Rent and Royalties 6 months Rs. 10,000
 - Clerical staff salary 0.5 months Rs. 62,400
 - Manager’s salary 0.5 months Rs. 4,800
 - Misc. Expenses 1.5 months Rs. 48,000
- iv) Payment in Advance :
 - Sundry expenses (paid quarterly in advance) Rs. 8,000
 - Undrawn Profits on an average throughout the year Rs. 11,000

b. Explain the capital budgeting process and investment criteria. 10 L5 CO5

PART - B (Case Study Compulsory)

9. The expected cash flows of a project are as follows:

Year	0	1	2	3	4	5
Cash flow	-1,00,000	20,000	30,000	40,000	50,000	30,000

Cost of capital is 12 percent.

Estimate the following:

20 L6 CO5

- a) Net present value
- b) Benefit – Cost ratio
- c) Internal rate of return
- d) Payback period

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