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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; October - 2023
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 PART - A	Marks	BLs	COs
1 a.	Maximization of profits is regarded as the proper objective of Investment decision but it is not as exclusive as maximizing shares holder's wealth. Comment.	10		CO1
b.	Explain the difference between capital markets and money markets along with their instruments.	10	L5	CO1
	OR			
2 a.	Why behavioral finance is important in today's financial management? Explain.	10		CO1
b.	Discuss the following financial management concepts: i) Warrants and convertibles ii) Hybrid financing iii) Financial engineering iv) Angle investing	10	L6	CO1
3 a.	What is time value of money? Discuss its relevance in financial decision making.	10	L2	CO2
b.	The Excel Bank LTD (EBL) offers 10% interest on a deposit of one year. Assuming; i) Annual, ii) Half – yearly, and iii) Quarterly Frequency of interest payment. Complete the effective interests in the three alternatives. Assume deposit is 1000 Rs.	10	L4	CO2
	OR			
4 a.	Explain the CAPM approach for computing cost of equity. Discuss the merits and demerits of the approach.	10	L5	CO4
b.	Determine the weighted average cost of capital (WACC) of the company using market value weight. The following information is available for your perusal. The company's present book value capital structure is: Debenture (Rs 100 per debenture) Rs 8,00,000 preference shares (Rs 100 per share) 200,000 equity shares (Rs 10 per share) 10,00,000. All these securities are traded in the capital markets. Recent prices are: debentures Rs. 110 per debenture preference shares, Rs 120 per share and	10		CO4

Anticipated external financial financing opportunity;

i) Rs 100 per debenture redeemable at par: 10 year maturity, 11 percent coupon rate, 4 percent flotation costs, sale price Rs 100.

ii) Rs 100 preference share redeemable at par; 10 year maturity, 12 percent dividend rate. 5 percent flotation costs, sale price Rs. 100

iii) Equity shares: Rs 2 flotation costs sale price = Rs 22

In addition, the dividend expected on the equity shares at the end of the year is Rs 2 per share; the anticipated growth rate in dividends is 7% and the corporate tax rate is 35%.

5 a. Evaluate relevance approach of capital structure theory against the irrelevance approach. 10 L5 CO4

b. A company's capital structure as follows:

Equity shares of Rs 100 each	Rs 20 Lakhs
Retained earnings	Rs 10 Lakhs
9% preference shares	Rs 12 Lakhs
7% debentures	Rs 8 Lakhs
Total	Rs 50 Lakhs

The company earns 12% on its total capital. The income tax rate is 35%. The company requires a sum of Rs. 25 Lakh to finance its expansion programme for which the following alternatives are available to it; 10 L6 CO4

i) Issue of 20,000 Eq shares at a premium of Rs 25 per share

ii) Issue of 10% preference shares

iii) Issue of 8% debentures

Which of the three alternatives would you recommend and why?

OR

6 a. The annual demand for a product is 6400 units. The unit cost is Rs 6 and inventory carrying cost per unit per annum is 25% of the average inventory cost. If the cost of procurement is Rs 75 determine; 10 L5 CO3

i) EOQ

ii) Number of orders per annum

iii) Time between two consecutive orders

Contd...3

b. A company expects to have Rs. 25000/- in bank on 1st May 2012 and requires you to prepare an estimate of cash position during the three months – May, June and July,2012. The following information is supplied.

Month	Sales (Rs)	Purchases (Rs)	Wages (RS	Office expenses (Rs)	Factory expenses (Rs)	Selling expenses
March	50000	30000	6000	4000	5000	3000
April	56000	32000	6500	4000	5500	3000
May	60000	35000	7000	4000	6000	3500
June	80000	40000	9000	4000	7500	4500
July	90000	40000	9500	4000	8000	4500

Other information: 10 L6 CO1

i) 20% of sales are in cash, remaining amount is collected in month following that of sales.

ii) Suppliers supply goods at two months credit

iii) Wages and other expenses are paid in the month following the one in which they are incurred.

iv) The company pays dividend to share holders, and bonus to workers of Rs 10000/- and Rs. 15000/ respectively in the month of May

v) Plant has been ordered and expected to be received in June. It will cost Rs. 80000/- to be paid in June.

vi) Income tax Rs. 25000/- is payable in July.

7 a. Length of operating cycle is a major determinant of working capital needs of a business firm. Explain 10 CO2

b. India Ltd. Selles its products on a gross profit of 20% on sales the following information is extracted from its annual accounts for the year ended 31st march 2022.

Sales (3 months credit)	40,00000 Rs
Raw materials	1200000
Wages (15 days in arrears)	960,000
Manufacturing expenses (one Month arrears)	1200000
Administration expenses (one Month arrears)	480,000
Sales promotion expenses (payable half yearly in advance)	200000

10 L3 CO5

The company enjoys one month credit from suppliers of raw materials and maintains 2 months of stock of raw materials and one and a half months finished goods. Cash balance is maintained of Rs 100000 as a precautionary balance. Assuming a 10% margin, find out the working capital requirements of India Ltd. Cost of sales for computation of debtors and stock of finished goods may be taken at sales minus gross profit as per rate of gross profit given.

OR

8 a. Easy Limited specializes in the manufacture of a computer component. The component is currently sold for Rs. 1000 with one month credit term, its variable and average cost being Rs. 800 and Rs 875 respectively. For the current year ended December 31, the company wants to extend its credit period to two months on account of which the following are expected: 10 L4 CO3

Increase in sales 25% increase in stock Rs. 200000, increase in creditors Rs. 100000. You are required to advise the company on whether or not to extend credit terms if all customers have avail of the extended credit period of two months. The cost of capital is 12%.

Evaluate whether new credit proposal can be accepted or not.

b. The annual cash requirement of X Ltd is Rs 12 lakh. The company has marketable securities in lot sizes of Rs 100000, Rs, 150000, Rs 200000, Rs 300000 and Rs 400000. Cost of conversion of marketable securities per lot is Rs 1000. The company can earn 5% yield on its securities. You are required to prepare a table indicating which lot size will have to be sold by the company. Also show that economic lot size can be obtained by the Baumol model. 10 L2 CO3

PART - B (Case Study is Compulsory)

9. The expected cash flow of a project are as follows

Year	Cash flows
0	–560,000
1	152000
2	178000
3	158500
4	145500
5	186000

The cost of capital is 10%.

i) Computation of payback period and discounted payback period & analyze 10 L4 CO2

ii) Estimate of Net Present Value (NPV) and Internal Rate of Return (IRR). 10 L5 CO2

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