

BALLARI INSTITUTE OF TECHNOLOGY & MANAGEMENT

(Autonomous Institute under Visvesvaraya Technological University, Belagavi)

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Course Code

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Second Semester MBA Degree Examinations, October/November 2022

FINANCIAL MANAGEMENT

Duration: 3 hrs

Max. Marks: 100

Note: 1. Answer any FOUR full questions from Question No. 1 to 7.

2. Question No. 8 is compulsory

3. Missing data, if any, may be suitably assumed

<u>Q. No</u>	<u>Question</u>	<u>Marks</u>	<u>(RBTL:CO:PO)</u>
1. a.	Name any two aims of finance function.	03	(2 : 1 : 1)
b.	Briefly explain the Indian Financial System.	07	(3 : 1 : 1)
c.	Explain the changing role of finance managers.	10	(3 : 1 : 1)
2. a.	Define Venture capital and Lease finance.	03	(2 : 1 : 1)
b.	Briefly explain the functions of financial management.	07	(3 : 1 : 1)
c.	Explain the favourable and unfavourable arguments regarding profit maximization and wealth maximization.	10	(3 : 1 : 1)
3. a.	Depict the organisation of finance function.	03	(2 : 2 : 2)
b.	A company issue 10,000, 10% preference shares of Rs.100/- each. Cost of issue is Rs.2/- per share. Calculate cost of preference share capital if these shares are issued i) at par ii) at premium of 10% and iii) at discount of 5%.	07	(4 : 2 : 2)
c.	Sridhar Company Ltd. has the following financing mix.	10	(4 : 2 : 2)

Particulars	Amount (Rs. In Lakhs)
Equity Capital (10 Lakh share at par value)	100
12% preference share capital (10,000 share at par value)	10
Retained earnings	120
14% Non-convertible debentures (70,000 debentures at par value)	70
14% term loan	100
Total	400

The equity shares of the company are trading at Rs. 25/-. The next expected dividend per share is Rs.20/- and Dividend is expected to grow at 8%. The preference shares are redeemable after 7 years at par and are currently quoted at Rs.75/- per share on stock exchange. The debentures are redeemable after 6 years at par and their current market price is Rs.90/- per share. The tax rate applicable to the company is 50%. What is the WACC of the company?

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|-------|--|----|-------------|
| 4. a. | What are the different sources of long term funds? | 03 | (2 : 2 : 2) |
| b. | Describe the features and types of preference shares. What is the difference between preference share and debenture? | 07 | (3 : 2 : 2) |

Note: (RBTL - Revised Bloom's Taxonomy Level: CO - Course Outcome: PI - Programme Outcome)

- c. The Zentex company has the following capital structure: 10 (4 : 2 : 2)
 Equity share capital 30,000 at par value of Rs. 10/-Rs.3,00,000/-
 12% debentures 1000 units at face value of Rs.100/- Rs.1,00,000/-
 8% 1000 preference shares of Rs.100/- cash issued at Rs.95/- (redeemable after 6 years) 1,00,000/-
 The company expects a dividend of Rs.5/- next year and expected growth rate is 7%. The market price of share is Rs.25/-. Assume tax rate as 50%. Calculate WACC using book value weights.
5. a. What is capital Expenditure? 03 (3 : 3 : 4)
- b. Calculate the payback periods of the following projects, each requiring a cash outlay of Rs.1,00,000/-. Suggest which projects are acceptable if the standard payback period is 5 years. 07 (3 : 3 : 4)
- | Year | Cash Inflows | | |
|------|--------------|-----------|-----------|
| | Project A | Project B | Project C |
| 1 | 30,000 | 30,000 | 10,000 |
| 2 | 30,000 | 40,000 | 20,000 |
| 3 | 30,000 | 20,000 | 30,000 |
| 4 | 30,000 | 10,000 | 40,000 |
| 5 | 30,000 | 5000 | - |
- c. A company is considering an investment proposal to install a new machine costing Rs.5,00,000/-. It has no salvage value and the life is 5 years. The company follows straight line method of depreciation. And tax rate is 30%. From the following details compute Net Present Value at 10% and Profitability Index. 10 (4 : 3 : 4)
- | Year | 1 | 2 | 3 | 4 | 5 |
|-------|----------|----------|----------|----------|----------|
| CFBDT | 1,05,000 | 1,10,000 | 1,40,000 | 1,50,000 | 2,50,000 |
6. a. Define Operating Leverage and Financial Leverage. 03 (2 : 4 : 3)
- b. ABC Co. Ltd., is producing 36,000 units p.a. in view of favourable market conditions, it has been decided that, from 1.1.2011. The following information is available. 07 (3 : 4 : 3)
- Existing cost structure per unit
- | | |
|----------------------|----------|
| Raw materials | Rs.4.00 |
| Wages | Rs.2.00 |
| Overheads (variable) | Rs.2.00 |
| Overheads (fixed) | Rs.1.00 |
| Profit | Rs. 1.00 |
- Additional Information:
- It is expected that cost of raw materials, wages, expenses and sales per unit remain unchanged in 2011.
 - Raw materials remain in store for 2 months before issue to production. These units remain in the process for 1 month.
 - Finished goods remain in go downs for 2 months.
 - Credit allowed to debtors is 2 months. Credit allowed by creditors is 3 months.
 - Lag in payment of wages and overheads 1 month. It may be assumed that wages and overheads accrue evenly throughout the production cycle.

You are required to calculate working capital requirements in an estimated basis to sustain the increased production level. Assumptions made if any, should be clearly indicated.

c. The following information is available for Swagat Ltd.

10

(4 : 4 : 3)

Particulars	Rs. (Million)
Average stock of raw materials and stores	200
Average work in process inventory	300
Average finished goods inventory	180
Average accounts receivable	300
Average accounts payable	180
Average raw material and stores purchased on credit committed per day	12.5
Average cost of goods sold per day	18
Average sales per day	20

You are required to calculate duration of operating cycle.

7. a. Define Optimum Capital Structure. 03 (2 : 5 : 5)
- b. What are the factors influencing dividend policy? Briefly explain. 07 (3 : 5 : 5)
- c. Write an explanatory note on factors determining capital structure. 10 (3 : 5 : 5)

8. a. The Karthik Co. Ltd., consists of sales 1,50,000 units at Rs.1.50/- per unit, then they want to increase sales to 2,00,000 units. Variable cost is 0.50/- paise per unit. Fixed expenses amounted to Rs.40,000/-, interest Rs.5000/- and income tax rate is assumed to be 50%. 10 (4 : 4 : 3)

You are required to calculate the following.

- i) Financial Leverage.
- ii) Operating leverage.
- iii) Combined leverage for present and future case and give you comments.

- b. A company is considering an investment proposal to install a new milling control at a cost of Rs.50, 000. The facility has a life expectancy of 5 years without salvage value. The firm uses SLM depreciation & the same is used for tax purposes. The tax rate is assumed to be 35%. The estimated cash flows before depreciation & tax for investment proposal are as under. 10 (4 : 3 : 4)

Year	1	2	3	4	5
PBDT	10,000	10,692	12,769	13,462	20,385

Compute:

- a. Pay Back Period (PBP).
- b. Average Rate of Return (ARR).
- c. NPV @ 10% discount rate.
- d. Profitability Index
- e. IRR.

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