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M.P. Birla Institute of Management LIBRARY

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II Semester M.B.A. (Day & Evening) Degree Examination
November/December - 2025
MANAGEMENT
Financial Management
(CBCS 2019 Scheme)

Time : 3 Hours **Maximum Marks : 70**

SECTION - A

Answer any Five questions from the following. Each question carries 5 marks. **(5×5=25)**

1. Describe the emerging role of finance manager in India.

2. How far do you agree that dividends are irrelevant to the company? Explain

3. A firm has sales of Rs. 18,00,000, Variable cost of Rs. 12,00,000 and fixed cost of Rs. 8,00,000 and debt of Rs. 9,00,000 at 10 % rate of interest. What are the operating, financial and combined leverages? If the firm wants to double its earnings before interest and tax (EBIT), how much of a rise in sales would be needed on a percentage basis?

4. A company issue 10% redeemable preference shares of Rs. 100 each at 6% premium redeemable after 15 years at 11% premium. If the flotation cost of each share is Rs. 3, what is the value of cost of preference share?

5. The face value per share of a company is Rs. 100 and its rate of return on equity is 12 percent. The company follows a dividend policy of 75% pay out. What is the price of its share if the capitalization rate is 10 percent.

6. A company offers a fixed deposits scheme by Rs. 20,000 matures to Rs. 25,250 after 2 years, on a half-yearly compounding basis. If the company wishes to amend the scheme by compounding interest every quarter, what will be the revised maturity value?

7. From the data given below. Determine the discounted payback period and accounting rate of return for the project. There is no salvage value, the company uses straight line method of depreciation and tax rate is 35%, the estimated life of the asset is 5 years.

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Year	Cash Inflow
0	(3,00,000)
1	1,65,000
2	1,35,000
3	75,000
4	45,000
5	25,000

SECTION - B

Answer any Three questions from the following each question carries 10 marks.

(3×10=30)

8. What do you understand by retained earnings? Discuss the merits and limitations of Ploughing back of profits as a source of finance.

9. ABC Company is desirous to purchase a business and has consulted you and one point on which you are asked to advise them is the average amount of working capital which will be required in the first year's working.

You are given the following estimates and are instructed to add 10 percent to your computed figure to allow for Contingencies:

Sl.No.	Particulars	Amount in Rs.
1.	Amount blocked up for stocks:	
	Stocks of finished product	5,00,000
	Stocks of stores, materials, etc	8,00,000
2.	Average Credit given:	
	Inland Sales: 6 weeks credit	33,12,000
	Export sales: 1½ weeks credit	1,78,000
3.	Lag in payment of wages and other outgoings:	
	Wages: 1½ weeks	26,00,000
	Stocks of materials : 1½ months	4,80,000
	Rent, Royalties: 6 months	10,00,000
	Clerical and multipurpose staffs : ½ month	1,62,400
	Manager ½ month	45,000
	Miscellaneous expenses: 1½ months	3,75,000
4.	Payment in Advance:	
	Sundry expenses (Paid quarterly in advance)	80,000
5.	Undrawn profit on the average throughout the year	11,00,000

Set up your calculations for the average amount of working capital required.

10. Ram Ltd. is considering three financial plans for which the key information is as below:

a) Total Investment to be raised Rs.40,00,000

b) Plans of financing proportion:

Plans	Equity	Debt	Preference Shares
A	60%	20%	20%
B	40%	40%	20%
C	75%	25%	-

c) Cost of debt is 8% after tax and Cost of preference share is 8%

d) Tax rate = 35%

e) Equity shares of the face value of Rs.10 each will be issued at a premium of Rs.10 per share.

f) Expected EBIT is Rs.9,00,000

Determine for each plan

i) Earnings Per Share (EPS)

ii) Financial break-even point

11. ABC Company has the following Capital structure as 31st March, 2025:

Particulars	Amount (Rs.)
10% Debentures	30,00,000
9% Preference Shares	20,00,000
Equity (50,000 of Rs.100 each)	50,00,000

The equity shares of the company are quoted at Rs.105 and the company is expected to declare a dividend of Rs.9 per share for 2024-25. The company has registered a dividend growth rate is 5% which is expected to be maintained.

a) Assuming the tax rate applicable to the company at 35%, calculate weighted average cost of capital, state your assumptions, if any.

b) Assuming in the above exercise, that the company can raise additional terms loan at 12% for Rs. 50,00,000 to finance an expansion, calculate the revised weighted cost of capital. The company's assessment is that it will be in a position to increase the dividend from Rs. 9 per share to Rs. 10 per share, but the business risk associated with new financing may bring down the market price from Rs. 102 to Rs. 96.

SECTION - C

12. Case Study (Compulsory): **(1×15=15)**

An enterprise can make either of two investments at the beginning of 2025. Assuming required rate of return of 10% per annum. Evaluate the investment proposals as under:

a) Net present value
b) Profitability index
c) Internal rate of return

The forecast particulars are given below:

Particulars	Proposal A	Proposal B
Cost of investment	Rs. 20,00,000	Rs. 28,00,000
Life	4 Years	5 Years
Scrap value	40,000	60,000
Depreciation	Straight Line Method	Straight Line Method
PV Factor	10%	12%
Net Income	Amount (Rs.)	Amount (Rs.)
End of 2025	9,00,000	Nil
End of 2026	8,00,000	18,00,000
End of 2027	9,00,000	15,00,000
End of 2028	6,00,000	11,00,000
End of 2029	Nil	7,00,000