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Reg. No. | | | | | | | | |

II Semester M.B.A. (Day and Evening) Degree Examination December - 2024

MANAGEMENT

Financial Management

(CBCS Scheme 2019 Onwards)

Paper : 2.5

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

SECTION - A

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

1. What are the roles of a finance executives in the modern world? Explain.

2. State the different situations under which capital rationing decisions are made.

3. What is cash management? Explain briefly with examples, the scope of cash management.

4. You have decided to deposit Rs.1,50,000 per year in the public provident fund account for 20 years. What will be the accumulated amount in public provident fund at the end of 20 years if the interest rate is 7.1%?
   Calculate:
   a) When investment is made at the beginning of each year and
   b) Investment is made at the end of each year.

5. ABC company's equity share is quoted in the market at Rs.25 per share currently. The company pays a dividend of Rs.2 per share and the investor's market expects a growth rate of 6% per year.
   You are required to :
   a) Calculate the company's cost of equity capital.
   b) If the anticipated growth rate is 8% per annum, calculate the indicated market price per share.

6. The following details of ABC Ltd. for the year ended 31-03-2024 are furnished:

Operating leverage	= 3:1
Financial leverage	= 2:1
Interest charges per annum	= Rs.20,00,000
Corporate tax rate	= 30%
Variable cost as percentage of sales	= 60%

   Prepare the income statement of the company.

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7. The following information is given for Harish Ltd

Earnings per share	:	Rs.12
Dividend per share	:	Rs. 3
Cost of capital	:	18%
Internal rate of return on investment	:	22%
Retention Ratio	:	40%

Calculate the market price per share using

a) Gordon's Model
b) Walters Model

SECTION - B

Answer any Three questions from the following each question carries 10 marks. **(3×10=30)**

8. Explain the importance of Finance in Non finance areas with suitable examples.

9. The following is the capital structure of NSS limited as on 31st March, 2024.
   a) Equity Share: 20,000 shares of Rs.100 each
   b) 10% Cost of Preference Share of Rs.100 each. The Value of Rs.8,00,000
   c) 12% Debentures of Rs.100 each, The Value of Rs.12,00,000

   The market price of a company share is Rs.125, and it is expected that a Dividend of Rs.12 per share would be declared after one year. The dividend growth rate is 8%. Compute the Weighted Average Cost of Capital if the company is 35% Tax bracket. The company is thinking of expanding the business for which it plans the borrow Rs.20,00,000 by 14% rate of interest. What will be the revised WACC.

10. Bhagya Ltd. has equity share capital of Rs.5,00,000 divided into shares of Rs.100 each. It wishes to raise further Rs.3,00,000 for expansion cum modernization scheme. The company plans the following financial alternatives:
    a) By issuing equity shares only
    b) 1,00,000 by issuing equity shares and Rs.2,00,000 through debentures or term loan @ 10% per annum.
    c) By raising term loan only at 10% per annum
    d) Rs.1,00,000 by issuing equity shares and Rs.2,00,000 by issuing 8% preference shares.

    You are required to suggest the best alternative giving your comment assuming that the estimated 'Earnings Before Interest and Taxes' (EBIT) after expansion is Rs. 1,50,000 and corporate tax is 35%.

11. On April 1st of the current year the board of directors of ABC limited wishes to know the amount of working capital that will be required to meet the program of activity. They have planned for the year 1 is available.

a) Production during the present year was 60,000 units. It is planned that this level of activity should be maintained during the next year.

b) The expected ratio of cost to selling price is

Raw Material : 60%
Direct Wages : 10%
Overheads : 20%

c) Raw material is expected to remain in stores for an average of 2 months before this are issued for production.

d) Each unit of production is expected to be in process one month. Full unit of raw material is required in the beginning of production

e) Furnished goods will stay in warehouse for approximately 3 months

f) Creditors allow credit for two months from the date delivery of raw material

g) Credit allowed to date is 3 months from the date of dispatch

h) There is regular production and sales cycle

i) Selling price per unit is Rs.5

Prepare Working Capital Forecast under net working capital method.

SECTION - C

(1×15=15)

12. Case Study Compulsory:

ABC Ltd is considering two different investment proposals. Proposal - I have an investment cost of Rs.10,00,000 and Proposal - II has an investment cost of Rs.28,00,000. Both the projects are expected to yield returns for a period of 5 years. The estimated income before depreciation and tax of the two proposals are as follows.

Year End	Proposal - I	Proposal - II
1	2,80,000	8,00,000
2	5,40,000	12,00,000
3	3,90,000	10,00,000
4	2,80,000	11,50,000
5	2,40,000	6,00,000

a) Compute Payback period of the proposal

b) Which is the most attractive investment proposal considering the discount rate of 12%? Use NPV criteria to assess the suitable proposals and also determine profitability index of the proposal.

c) Find out the IRR of the two proposals.