II Semester M.B.A. Degree Examination, July 2018
(CBCS)
MANAGEMENT
2.5 : Financial Management

Time : 3 Hours

Max. Marks : 70

SECTION - A

Answer any five of the following questions. Each question carries 5 marks. (5x5=25)


2. Discuss the factors that should be considered while deciding a firm's capital structure.

3. "Walter's model asserts that retentions influence stock prices only through their effect on future dividends" - Discuss.

4. A company has Rs. 40,00,000 8% debentures outstanding to-day. It has to redeem the debentures after 5 years and establishing a sinking fund to provide funds for redemption. Sinking Fund Investments can earn interest @ 12 percent per annum. The investments are made at the end of each year. What annual payment must the firm make to ensure that the needed Rs. 40,00,000 is available on the designated date.

5. ABC Ltd. has current sales of Rs. 40,00,000. The company planning to introduce a cash discount policy of 2/10, net 30. As a result the company expects the average collection period to go down by 10 days and 70% of the sales opt for cash discount facility. If the company's required return on investment in receivables is 20%. Should it introduce the new discount policy?

6. If the combined leverage and operating leverage of a company are 2.5 and 1.25 respectively. Find the financial leverage and P/V ratio. Given that the equity dividend per share is Rs. 2, interest payable per year is Rs. 1,00,000, total fixed cost Rs. 50,000 and sales Rs. 10,00,000.

P.T.O.
7. ABC Ltd. sells its product @ a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year.

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (3 months credit)</td>
<td>60,00,000</td>
</tr>
<tr>
<td>Raw-materials</td>
<td>18,00,000</td>
</tr>
<tr>
<td>Wages (15 days in arrears)</td>
<td>9,60,000</td>
</tr>
<tr>
<td>Manufacturing expenses (one month in arrears)</td>
<td>12,00,000</td>
</tr>
<tr>
<td>Administrative expenses (one month in arrears)</td>
<td>4,80,000</td>
</tr>
<tr>
<td>Sales promotion expenses (payable half yearly in advance)</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Income tax (last quarter installment due)</td>
<td>4,00,000</td>
</tr>
</tbody>
</table>

The company enjoys one month credit from the suppliers of raw-materials and maintains two month's stock of raw-materials and one month's finished goods. Cash balance is maintained at Rs. 1,00,000. Calculate its net working capital.

SECTION – B

Answer any three of the following questions. Each question carries 10 marks. (3×10=30)

8. What are the different methods of appraising capital investments? Discuss briefly each of the methods.

9. Explain the different sources of financing working capital needs of an organisation.
10. The existing capital structure of XYZ Ltd. is as follows

<table>
<thead>
<tr>
<th>Amount</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity shares of Rs. 100 each</td>
<td>40,00,000</td>
</tr>
<tr>
<td>Retained earnings</td>
<td>10,00,000</td>
</tr>
<tr>
<td>9% preference shares</td>
<td>25,00,000</td>
</tr>
<tr>
<td>7% debentures</td>
<td>25,00,000</td>
</tr>
</tbody>
</table>

Company earns a return of 12% and tax on income is 35%.

The company wants to raise Rs. 25,00,000 for its expansion project for which it is considering following alternatives.

i) Issue of 20,000 equity shares @ a premium of Rs. 25 per share.

ii) Issue 10% preference shares.

iii) Issue 9% debentures.

Projected that P/E ratios in case of equity, preference and debenture financing 20, 17 and 16 respectively.

Which alternative would you consider to be the best? Give reasons for your choice.

11. You are required to determine the weighted average cost of capital of M/s Vinayaka Enterprises Ltd., Bengaluru using (i) Book value weights (ii) Market value weights.

The company's present book value capital structure is

<table>
<thead>
<tr>
<th>Amount</th>
<th>Rs.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debenture (Rs. 100 per debenture)</td>
<td>16,00,000</td>
</tr>
<tr>
<td>Preference shares (Rs. 100 per share)</td>
<td>4,00,000</td>
</tr>
<tr>
<td>Equity shares (Rs. 10 per share)</td>
<td>20,00,000</td>
</tr>
</tbody>
</table>

All these securities are traded in the capital markets. Recent prices are Debentures @ Rs. 110, preference shares @ Rs. 120 and equity shares @ Rs. 22. Anticipated external financing opportunities are

i) Rs. 100 per debenture redeemable at par, 10 years maturity, 8% coupon rate, 4% flotation cost, sale price Rs. 100.

ii) Rs. 100 preference shares, redeemable @ par, 15 years maturity, 10% dividend rate, 5% flotation cost, sale price Rs. 100.

iii) Equity shares Rs. 2 per share flotation cost, sale price Rs. 22. In addition the dividend expected on equity share at the end of the year Rs. 2 per share, the anticipated growth rate in dividends is 5%. The tax rate is 50%.
12. X Company Ltd. is considering two different investment proposals. Proposal – A has an investment cost of Rs. 10 lakhs and Proposal – B has an investment cost of Rs. 28 lakhs. 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:

<table>
<thead>
<tr>
<th>Year End</th>
<th>Proposal – A</th>
<th>Proposal – B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Rs.</td>
<td>Rs.</td>
</tr>
<tr>
<td>1</td>
<td>3,30,000</td>
<td>9,00,000</td>
</tr>
<tr>
<td>2</td>
<td>5,00,000</td>
<td>11,00,000</td>
</tr>
<tr>
<td>3</td>
<td>3,70,000</td>
<td>12,00,000</td>
</tr>
<tr>
<td>4</td>
<td>3,00,000</td>
<td>8,00,000</td>
</tr>
<tr>
<td>5</td>
<td>2,00,000</td>
<td>7,00,000</td>
</tr>
</tbody>
</table>

a) Which is the most attractive investment proposal considering the discount rate of 12%? Use NPV criteria to answer this question.

b) Find out the IRR of the two proposals.
II Semester M.B.A. Degree Examination, July 2017
(CBCS)
MANAGEMENT
2.5: Financial Management

Time: 3 Hours
Max. Marks: 70

Instruction: Answer all the Sections.

SECTION - A

Answer any five of the following questions. Each question carries 5 marks. (5x5=25)

1. When can there arise a conflict between shareholders' and managers' goals? How can it be resolved?

2. Briefly explain the features of Venture Capital.

3. Explain the factors influencing dividend policy.

4. The earnings per share of a company are Rs. 10. It has an internal rate of return of 15% and the capitalization rate of its risk class is 12.5%. If Walter's model is used:
   i) What should the optimum payout ratio of the firm?
   ii) What would be the price of the share at this payout?

5. Assuming that a firm pays tax at a 40% tax rate, compute the after tax cost of capital in the following cases:
   a) A bond, sold at Rs. 100 with a 7 percent interest and a redemption price of Rs. 110, if the company redeems it in 5 years.
   b) An ordinary share, selling at a current market price of Rs. 120 and paying a current dividend of Rs. 9 per share, which is expected to grow at a rate of 8%?

6. Rao Corporation has a target capital structure of 60% equity and 40% debt. Its cost of equity is 18% and its pre-tax cost of debt is 13%. If the relevant tax rate is 35%, what is Rao Corporation's WACC?

7. Explain the role of finance manager in the changing scenario of financial management in India.
SECTION – B

Answer any three of the following, each question carries ten marks. (10×3=30)

8. "Finance function of a business is closely related to its other functions". Discuss with suitable examples.

9. A firm's sales, variable costs and fixed cost amount to Rs. 75,00,000, Rs. 42,00,000 and Rs. 6,00,000 respectively. It has borrowed Rs. 45,00,000 at 9 percent and its equity capital totals Rs. 55,00,000.
   a) What is the firm's ROI?
   b) Does it have a favorable financial leverage?
   c) If the firm belongs to an industry whose asset turnover is 3, does it have a high or low asset leverage?
   d) What are the operating, financial and combined leverages of the firm?
   e) If the sales drop to Rs. 50,00,000, what will the new EBIT be?
   f) At what level will the EBT of the firm equal to zero?

10. JKL Limited is considering the revision of its credit policy with a view to increasing its sales and profit. Currently all its sales are on credit and the customers are given one month's time to settle the dues. It has a contribution of 40% on sales and it can raise additional funds at a cost of 20% per annum. The marketing manager of the company has given the following options along with estimates for considerations:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Current Position</th>
<th>Option I</th>
<th>Option II</th>
<th>Option III</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales (in Lakh Rs.)</td>
<td>200</td>
<td>210</td>
<td>220</td>
<td>250</td>
</tr>
<tr>
<td>Credit period (in months)</td>
<td>1</td>
<td>1.5</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Bad debts (% of sales)</td>
<td>2</td>
<td>2.5</td>
<td>3</td>
<td>5</td>
</tr>
<tr>
<td>Cost of credit administration</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(in Rs. Lakh)</td>
<td>1.20</td>
<td>1.30</td>
<td>1.50</td>
<td>3.00</td>
</tr>
</tbody>
</table>

You are required to advise the company for the best option.
11. A proforma cost sheet of a company provides the following particulars:

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Amount per unit ((₹))</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw material</td>
<td>80</td>
</tr>
<tr>
<td>Direct labour</td>
<td>30</td>
</tr>
<tr>
<td>Overheads</td>
<td>60</td>
</tr>
<tr>
<td>Total cost</td>
<td>170</td>
</tr>
<tr>
<td>Profit</td>
<td>30</td>
</tr>
<tr>
<td>Selling price</td>
<td>200</td>
</tr>
</tbody>
</table>

The following further particulars are available. Raw materials are in stock on an average for one month, WIP on an average for half a month. Finished goods are in stock on an average for one month.

Credit allowed by suppliers is one month, credit allowed to customers is two months. Lag in payment of wages is 1½ weeks (1.5), lag in payment of overhead expenses is one month. One-forth of the output is sold against cash, cash in hand and at bank is expected to be \(₹\) 25,000. You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production. You may assume that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

SECTION – C

12. **Compulsory** question: 

Case study:

You are a financial analyst for Hitesh Co. Ltd. The Director of capital budgeting has asked you to analyze the two proposed capital investments, Project X and Project Y. Each project has a cost of Rs. 2 million and the cost of capital for each project is 12%. The project's expected profit before depreciation and taxes are:

<table>
<thead>
<tr>
<th>Year</th>
<th>Project X (PBDT)</th>
<th>Project Y (PBDT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8,00,000</td>
<td>15,00,000</td>
</tr>
<tr>
<td>2</td>
<td>8,00,000</td>
<td>10,00,000</td>
</tr>
<tr>
<td>3</td>
<td>8,00,000</td>
<td>6,00,000</td>
</tr>
<tr>
<td>4</td>
<td>8,00,000</td>
<td>2,00,000</td>
</tr>
</tbody>
</table>

a) Calculate Pay Back Period, Net Present Value and Profitability Index.

b) Which project/projects should be accepted if they are independent?
Ill Semester M.B.A. Degree Examination, July 2016  
(CBCS)  
MANAGEMENT  
2.5 : Financial Management  

Time : 3 Hours  
Max. Marks : 70

SECTION – A

Answer any five of the following questions. Each question carries five marks. (5x5=25)

1. Explain the various types of decisions which are to be taken by financial manager in the emerging business scenario.

2. Discuss any five factors relevant in determining capital structure.

3. Why dividend policy is important for a company? Explain.

4. A company has Rs. 20,00,000 6% Debentures outstanding today, which will be redeemed after 5 years. For redemption the company established a sinking fund and its investments earn interest @ 10% p.a. What annual payment must the firm make to ensure that the needed Rs. 20,00,000 available on the designated date.

5. The capital structure of Bombay Traders Ltd. as on 31-3-2015 is as follows

<table>
<thead>
<tr>
<th>Rs. in crores</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity capital : 100 lakh equity shares of Rs. 10 each</td>
</tr>
<tr>
<td>Retained Earnings</td>
</tr>
<tr>
<td>14% debentures</td>
</tr>
</tbody>
</table>

For the year ended 31-3-2015 the company has paid a equity dividend at 20% and the growth rate is 5% every year. The equity shares are traded at Rs. 80 per share in the stock exchange. Tax rate applicable to the company is 40%. Calculate the current weighted average cost of capital.

P.T.O.
6. The following details of ABC Ltd. for the year ended 31-3-2015 are furnished.

- Operating leverage: 3
- Financial leverage: 2
- Interest charges p.a.: Rs. 20 lakhs
- Corporate tax: 40%
- Variable cost as a % of sales: 60%

Prepare the Income Statement of the company.

7. A company sells 40,000 units of its product per year @ Rs. 35 per unit. The variable cost per unit is Rs. 28. The average collection period is 60 days. Bad debt losses are 3% on sales and the collection charges amount to Rs. 15,000.

The company is considering the proposal to follow stricter collection policy which would bring down bad debts to 1% of sales and average collection period to 45 days. It would however, reduce the sales volume by 1000 units and increase the collection expenses to Rs. 25,000.

The company requires a rate of return of 20% would you recommend the adoption of the new credit policy?

SECTION – B

Answer any three of the following questions. Each question carries ten marks. (3x10=30)

8. What is working capital policy? Explain the different types of working capital policies of the business firm.

9. “Walter’s model asserts that retentions influence stock price only through their effect on future dividends” – Discuss.

10. XYZ Ltd. is considering three financing plans.

<table>
<thead>
<tr>
<th>Financial Plan</th>
<th>Equity</th>
<th>Debt</th>
<th>Preference</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>100%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>B</td>
<td>50%</td>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>C</td>
<td>50%</td>
<td></td>
<td>50%</td>
</tr>
</tbody>
</table>
Total funds to be raised          Rs. 200 crores
Rate of Interest on debt          12%
Corporate tax rate                35%
Dividend on preference shares     9%
Face value of equity share        Rs. 10 each.

These shares will be issued at a
premium of Rs. 10 per share

Expected E.B.I.T                   Rs. 80 crore

Determine:

i) E.P.S. under each plan

ii) Indifference points between financial plans A and B and A and C.

11. Capro industries plans an investment of Rs. 75,000 in a new machinery that
would produce inflow of Rs. 25,000 every year for 5 years. The representative of
another equipment manufacturer presents an alternative proposal. By investing
Rs. 1,60,000 in his company’s equipment Capro industries can obtain a cash
inflow of Rs. 50,000 every year for five years. In future, an investment of this
type can be expected to yield a discounted rate of return of 12%.

You are required to find:

a) Which alternative is more attractive if a discounted rate of 12% is expected?
b) The discounted rate of return on investment alternatives.
c) Discounted rate of return on incremental investment.

SECTION – C

12. Case study – Compulsory.

XYZ Ltd. is presently operating at 60% level producing 36000 units and proposes
to increase capacity utilization in the coming year 33 \(\frac{1}{3}\) % over the existing level
of production. The following data has been supplied.

a) The expected ratio’s of cost to selling price are:
   Raw material  –  40%
   Direct wages  –  20%
   Overheads    –  20%
b) Selling price per unit Rs. 15.
c) Raw materials will remain in stores for 1 month. Material will remain in process for further one month.
d) Suppliers grant 3 months credit to the company and debtors are allowed 2 months credit.
e) Finished goods remain in godown for one month.
f) Lag in wages and overhead payment is one month.

Prepare a projected profitability statement and the working capital requirement at the new level, assuming that a minimum cash balance of Rs. 50,000 has to be maintained.
II Semester M.B.A. Degree Examination, June/July 2015
(CBCS Scheme)
2.5 : FINANCIAL MANAGEMENT

Time : 3 Hours
Max. Marks : 70

SECTION - A

Answer any five questions. Each question carries five marks. The answer must not exceed 250 words. (5x5=25)

1. Comment on the emerging role of finance manager in India.

2. Explain the determinants of working capital.

3. Discuss the various methods of calculating cost of equity.

4. Explain briefly the long term sources of finance available to business.

5. A company has 20,00,000, 6% debentures outstanding today. The company has to redeem the debentures after 5 years and establishes a sinking fund to provide funds for redemption. Sinking fund investments can earn @ 10% p.a. The investments are made at the end of each year. What annual payments must the firm make to ensure that the needed 20,00,000 is available on the designated date?

6. From the following extracts of financial data prepare income statement for Radiant Ltd. and comment on its financial performance:

   Variable cost (% of sales)  – 65
   Interest burden – 200
   Degree of operating leverage – 4%
   Degree of financial leverage – 3%
   Tax rate @ 35%.

P.T.O.
7. The management of Royal industries has called for a statement showing the working capital needs to finance a level of activity of 1,80,000 units of output for the year. The cost structure for the company’s product line the above mentioned activity level is detailed below:

<table>
<thead>
<tr>
<th>Cost per Unit (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
</tr>
<tr>
<td>Direct labour</td>
</tr>
<tr>
<td>Overheads</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Profit</td>
</tr>
<tr>
<td>Selling price</td>
</tr>
</tbody>
</table>

Additional Information:
- a) Minimum desired cash balance is Rs. 20,000.
- b) Raw materials are held in stock, on an average, for 2 months.
- c) Work-in-progress (assume 50% completion stage) will approximate to half month’s production.
- d) Finished goods remain in warehouse, on an average, for a month.
- e) Suppliers of materials extend a month’s credit and debtors are provided two month’s credit; cash sales are 25% of total sales.
- f) There is a time lag in payment of wages of a month and half-a-month in case of overheads.

From the above data, you are required to

1) Prepare a statement showing working capital needs;

SECTION – B

Answer any three questions. Each question carries ten marks. The answer must not exceed 500 words.

(3×10=30)

8. Discuss the Walter’s model of dividend policy. What are its implications?

9. What is capital structure? Explain the factors that influence capital structure.
10. Three financing plans are available for Texas Manufacturing which needs Rs. 10,00,000 for construction of a new plant. Texas wants to maximize EPS. Currently the equity share is selling for Rs. 30 per share. The EBIT resulting from the plant operation is Rs. 1,50,000 p.a. The marginal tax rate is 30%. Money can be borrowed at the rates indicated below:

- Upto Rs. 1,00,000 @ 10%
- Over Rs. 1,00,000 to Rs. 5,00,000 @ 14%
- Over Rs. 5,00,000 @ 18%

The three financing plans are:

- Plan A – Use 1,00,000 debt; expected EBIT Rs. 2,50,000
- Plan B – Use 3,00,000 debt; expected EBIT Rs. 3,50,000
- Plan C – Use 6,00,000 debt; expected EBIT Rs. 5,00,000.

Determine EPS for these three plans and indicate the plan which results in highest EPS.

11. Alpha Ltd. has the following capital structure as per its B/S as at 31-3-2015:

<table>
<thead>
<tr>
<th>Capital Structure</th>
<th>Amount (in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity share capital (fully paid share of Rs. 10 each)</td>
<td>8</td>
</tr>
<tr>
<td>18% Preference share capital</td>
<td></td>
</tr>
<tr>
<td>(fully paid share of Rs. 100 each)</td>
<td>6</td>
</tr>
<tr>
<td>Reserves and surplus</td>
<td>2</td>
</tr>
<tr>
<td>12.5% debentures (fully paid debenture of Rs. 100 each)</td>
<td>16</td>
</tr>
<tr>
<td>12% term loans</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>40</strong></td>
</tr>
</tbody>
</table>

**Additional Information:**

a) The current market price of the company’s share is Rs. 64.25. The prevailing default risk free interest rate on 10 year GOI treasury bonds is 5.5%. The average market risk premium is 8%. The beta of the company is 1.1875.
b) The Preference shares of the company which are redeemable after 10 years are currently selling at 90 per preference share.

c) The debentures of the company which are redeemable after 5 years are currently quoted at 95 per debenture.

d) The corporate tax rate is 30%.

**Required:**

Calculate weighted average cost of capital using

a) book value weights

b) market value weights.

**SECTION – C**

**Case Study (Compulsory):**

(1×15=15)

12. Karnataka Diagnostics a mid sized medical service company wished to invest in new medical diagnostic technology. The management is considering the following two projects which it is considered will meet Karnataka requirement:

<table>
<thead>
<tr>
<th></th>
<th>Project 1</th>
<th>Project 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial cash outlay</td>
<td>160</td>
<td>100</td>
</tr>
<tr>
<td>Net cash inflows:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Year 1</td>
<td>30</td>
<td>30</td>
</tr>
<tr>
<td>Year 2</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>Year 3</td>
<td>50</td>
<td>30</td>
</tr>
<tr>
<td>Year 4</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>Year 5</td>
<td>70</td>
<td>30</td>
</tr>
</tbody>
</table>

Assume cost of capital as 10%.

a) Determine payback period, NPV, PI and IRP.

b) Indicate which project would you recommend?

c) Discuss briefly any non-financial factors which Karnataka Diagnostics should consider?