C 43512 **(Pages : 4)** **Name.....**

Reg. No.....

SECOND SEMESTER M.B.A. DEGREE EXAMINATION
JULY 2023

(CUCSS)

M.B.A.

BUS 2C 11—FINANCIAL MANAGEMENT

(2016 Scheme)

Time : Three Hours Maximum : 36 Weightage

Part A

Answer **all** *questions.*
Each question carries 1 *weightage.*

1. What is cost of capital ?
2. What is Compounding ?
3. What do you mean by IRR ?
4. State the objectives of Cash management ?
5. Distinguish between Net working capital and Gross working capital ?
6. What is Factoring ?

(6 × 1 = 6 weightage)

Part B

Answer any **four** *questions.*
Each question carries 3 *weightage.*

7. What do you mean by Financial Management ? Explain its objectives.
8. A company issued 10,000 ten-years 8 % debentures of 100 each at 4 % discount. Under the terms of debenture trust, these debentures are to be redeemed after 10 years at 5 % premium. The cost of issue is 2 %. Assuming tax rate at 50 %. Calculate the cost of debt capital before and after tax.
9. What is working capital ? Explain the factors determining working capital ?
10. A firm wishes to raise 10,00,000 for expansion. The firm has three alternative financial plans.
    (a) It can raise the entire amount in the form of equity capital.
    (b) It can raise 50 % equity capital and 50 % as 5 % debentures.
    (c) It can raise 75 % as equity capital and 25 % as 5 % preference capital.

Turn over

Further assume that expected EBIT is 1,20,000, the tax rate is 50 % and the issue price per equity share is 20. Which financing plan should the firm select and why ?

11. What is optimum capital structure ? Explain its features in detail ?

12. The following information is given, calculate the payback period as well as discounted payback period.

Cost of the project - Rs. 3,00,000

Life of the project - 5 years

Annual cash flow - Rs. 1,00,000

Expected rate of return 10 %

Present value factor at 10 %

Year	1	2	3	4	5
PV factor	.909	.826	.751	.683	.621

(4 × 3 = 12 weightage)

Part C

Answer any **three** *questions.*
Each question carries 4 *weightage.*

13. What are the various sources of finance ?

14. Write a note on MM Model of capital structure ?

15. A company expects EBIT of 1,00,000. It has 5,00,000, 10 % debentures. The equity capitalisation rate of the company is 20 %.

(a) Calculate the value of the firm and Overall Capitalisation Rate according to Net Income Approach (Ignoring income tax].

(b) If the debenture debt is raised to 6,00,000 what shall be the value of the firm and the overall capitalisation rate.

16. The following is the capital structure and the specific after tax costs for each component. Calculate the weighted average cost of capital.

Details	*Amount* (Rs.)	*Cost* (%)
Debt	15 lakh	4
Preference shares	5 lakh	8
Equity shares	10 lakh	11
Retained earnings	20 lakh	10
Total	50 lakh	

17. A proforma cost sheet of a company provides the following data :

Particulars	*Cost per unit* (Rs.)
Raw material	20
Direct labour	8
Overheads	15
Total cost	43
Add : Profit	7
Selling price	50

The following is the additional information available :

(1) Average raw material in stock - one month.

(2) Average works in process - half a month.

(3) Finished goods in stock - on average one month.

(4) Credit allowed to debtors - 2 months.

(5) Credit allowed by suppliers - one month.

(6) Time lag in payment of wages - one month.

(7) Time lag in payment of overheads - one month.

(8) Cash balance is expected to be Rs. 90,000.

You are required to prepare a statement showing working capital needed to finance a level of activity of 52,000 units of output as per Total Approach method of Working Capital Estimation. You may assume that production is carried on evenly throughout the year and wages overheads accrue.

(3 × 4 = 12 weightage)

Part D (Compulsory)

It carries **six** *weightage.*

18. A company is considering two mutually exclusive projects. The finance director thinks that the project with the higher NPV should be chosen, whereas the managing director thinks that the one with the higher IRR should be undertaken especially as both projects have the same initial outlay and length of life. The company anticipates a cost of capital of 10% and the net after tax cash flows of the projects are as follows :

Year (Cash flows in 000)	:	0	1	2	3	4	5
Project X	:	(200)	35	80	90	75	20
Project Y	:	(200)	218	10	10	4	3

Turn over

You are required to :

(a) Calculate the NPV and IRR of each project.

(b) State with reasons which project you would recommend.

The discount factors are as follows :

Year :	0	1	2	3	4	5
(10 %) :	1	0.91	0.83	0.75	0.68	0.62
(20 %) :	1	0.83	0.69	0.58	0.48	0.41

(1 × 6 = 6 weightage)