

Reg. No. :

Question Paper Code : 10198

M.B.A. DEGREE EXAMINATIONS, APRIL/MAY 2023.

Second Semester

BA 4202 – FINANCIAL MANAGEMENT

(Regulations 2021)

Time : Three hours

Maximum : 100 marks

(Time value Table permitted)

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. State the functions of financial management.
2. Recall the major components of time value of money.
3. List out the principles of Capital Budgeting.
4. Write the importance of Net Present Value.
5. What is Financial Leverage? Give an example.
6. What do you mean by dividend decision?
7. Recall the main components of Working Capital.
8. Write a short note on Commercial Papers.
9. What do you mean by Long-term sources of finance?
10. What is Private equity?

PART B — (5 × 13 = 65 marks)

11. (a) (i) Examine the primary objectives of Financial Management. (8)
(ii) Explain the relationship between risk and return with an example. (5)
- Or
- (b) Give a detailed account on valuation of bonds. (13)

12. (a) (i) How to identify the relevant cash flows and capital budgeting process? (8)
- (ii) A company is considering an investment proposal, involving an initial cash outlay of Rs.45 lakh. The proposal has an expected life of 7 years and zero salvage value. At a required rate of return of 12 per cent, the proposal has a profitability index of 1.182. Calculate the annual cash inflows. (5)

Or

- (b) Equipment A has a cost of Rs. 75,000 and net cash flow of Rs. 20,000 per year, for six years. A substitute equipment B would cost Rs.50,000 and generate net cash flow of Rs. 14,000 per year for six years. The required rate of return of both equipment is 11 per cent. Calculate the IRR and NPV for the equipments. Which equipment should be accepted and why? (13)

13. (a) From the following prepare Income statement of Company X and Company Y. (13)

	Company X	Company Y
Financial leverage	4 : 1	5 : 1
Interest	6,00,000	7,00,000
Operating leverage	3 : 1	4 : 1
Variable cost to sales	66.66%	50%
Income tax rate	30%	40%
No. of Equity Shares	1,00,000	70,000

Also calculate and comment on EPS of the company.

Or

- (b) (i) Elucidate the assumptions under net income approach. (6)
- (ii) What are the factors to consider for the dividend policy? (7)
14. (a) (i) Describe the determinants of Working Capital. (5)
- (ii) Following is the information of XYZ Industries Ltd. for the year 30th June, 2022. Their plan is to sell 30,000 units in the year 2022-23. The expected cost of goods sold is as under you are required to calculate the working capital requirements. (8)

Particulars	Rs. (per unit)
Raw material	100
Manufacturing expenses	30
Selling, administration and financial expense	20
Selling price	200

The duration at various stages of the operating cycle is expected to be as follows:

- Raw material stage 2 months
- Work-in-progress stage 1 month
- Finished goods stage 1/2 month
- Debtors stage 1 month

Assume that the monthly sales level of 2,500 units, estimate the gross working capital necessity. Expected cash balance is 5% of the gross working capital necessity, and working progress in 25% complete with respect to manufacturing expenses.

Or

- (b) (i) A manufacturer uses Rs. 10,000 worth of an item in a year. He has estimated the ordering cost as Rs.25 per order and carrying costs as 12.5% of average inventory value. Find the optimal order size, number of orders per year, time period, per order and total cost. (8)
- (ii) Bring out the advantages and disadvantages of Trade Credit. (5)
15. (a) Give a detailed account on the role of Indian Capital Market. (13)

Or

- (b) Discuss in detail on the different stages of Venture Capital available to Start-ups. (13)

PART C – (1 × 15 = 15 marks)

16. (a) The summarized balance sheet of Sri Ram Ltd. as on 31.12.2016 and 31.12.2017 are as follows:

Liabilities	2016	2017	Assets	2016	2017
Share Capital	1,00,000	1,00,000	Building	46,800	45,000
General Reserve	38,400	42,000	Plant & Machinery	38,280	42,030
Creditors	9,750	6,380	Goodwill	13,000	13,000
Tax provision	19,000	21,000	Investment	10,000	11,250
Doubtful debt	1,000	1,200	Stock	30,000	28,000
			Debtor	22,070	22,300
			Cash	8,000	9,000
	<u>1,68,150</u>	<u>1,70,580</u>		<u>1,68,150</u>	<u>1,70,580</u>

After taking the following information into account, prepare a cash flow statement for the year ending 31.12.2017.

- (i) The profit for 2016-2017 was Rs.8,600 against this had been charged Dep. Rs. 3,050 and increase in provision for doubtful debt Rs.200.
- (ii) Income tax Rs. 18,000 was paid during the year charged against the provision and in addition Rs.20,000 was charged against profit and carried to the provision.
- (iii) An interim dividend of Rs.5,000 was paid in January 2017
- (iv) Additional plan was purchased in September 2016 for Rs.5,000
- (v) Investments (Cost Rs.5,000) were sold 2017 for Rs.4,800 and on 1st March 2017 another investment was made for Rs.6,250.

Or

- (b) Compare and contrast the Relevance and Irrelevance theories of Dividend.

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