Sales amounted to ₹ 3,50,000 in the first year and ₹ 3,00,000 in the second year.

You are required to comment on the solvency position of the concern with the help of accounting ratios.

Reg. No. : ....

Code No. : 8692 **Sub. Code : ZBAM 22**

M.B.A. (CBCS) DEGREE EXAMINATION, APRIL 2022

Second Semester

Business Administration — Core

FINANCIAL MANAGEMENT

(For those who joined in July 2021 onwards)

Time : Three hours Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. The concept of financial management is mainly related to ————

   (a) Arrangement of funds for the company

   (b) Procurement and Utilization of funds for company operations

   (c) Profit maximization for the organization

   (d) Accounting of profit and loss on yearly basis

2. Which of the following source funds has an implicit cost of capital?

(a) Equity share capital

(b) Preference share capital

(c) Debentures

(d) Retained earnings

3. The term capital structure denotes

(a) Total of liability side of the balance sheet

(b) Equity funds, preference capital and long term debts

(c) Total share holder's equity

(d) Types of capital issued by a company

4. High degree of financial leverage means

(a) High debt proportion

(b) Low debt proportion

(c) Equal debt and equity

(d) None of the above

5. Which of the following is not incorporated in capital budgeting?

(a) Tax effect

(b) Time value of money

(c) Required rate of return

(d) Rate of cash discount

6. Two mutually exclusive projects with unequal economic lives can be compared on the basis of

(a) Internal rate of return

(b) Profitability index

(c) Net present value

(d) Equivalent annuity value

7. Residual theory argues that dividend is a

(a) Relevant decision

(b) Active decision

(c) Passive decision

(d) Irrelevant decision

8. Stock split is a form of

(a) Dividend payment

(b) Bonus issue

(c) Financial restructuring

(d) Dividend in kind

9. Cost of goods sold is Rs. 8,000 and gross margin is Rs. 5,000, then revenue will be

(a) ₹ 5,000 (b) ₹ 3,000

(c) ₹ 13,000 (d) ₹ 8,000

10. In case flow statement, cash includes

(a) Cash in hand

(b) Demand deposits with bank

(c) Cash in hand and demand deposits with bank

(d) Cash in hand or demand deposit with bank

PART B — (5 × 5 = 25 marks)

Answer ALL questions, choosing either (a) or (b).

Each answer should not exceed 250 words.

11. (a) Explain the concept of time value of money. What are the techniques for estimating time value of money?

Or

(b) Explain the importance of cost of capital.

12. (a) What is meant by operating leverage? What is its significance?

Or

(b) What is the pecking order theory? What are the implications of pecking order theory?

13. (a) Explain the capital budgeting process.

Or

(b) Green grocers is deciding among two mutually exclusive projects. The two projects have the following cash flows.

Year	Project A Cash flow (Rs.)	Project B Cash flow (Rs.)
0	–50,000	–50,000
1	15,625	0
2	15,625	0
3	15,625	0
4	15,625	99,500

The company's cost of capital is 10 percent. Which should be chosen?

14. (a) You are provided with the following information of X Co., Ltd.

Cost of capital (k) = 12%

Earnings per share (E) = Rs. 15

Rate of return (r) = 15%

Determine the value of share using Gordon's model assuming the dividend pay-out ratio is 80%.

Or

(b) What is accounts receivable (AR) financing? What are its benefits?

15. (a) What are the various reasons for inter corporate investment?

Or

(b) State the appropriate pricing policy in each of the following independent situations.

(i) 'A' is a new product for the company and the market and meant for large scale production and long term survival in the market. Demand is expected to be elastic.

(ii) 'B' is a new product for the company, but not for the market. B's success is crucial for the company's survival in the long term.

(iii) 'C' is a new product to the company and the market. It has an inelastic market. There needs to be an assured profit to cover high initial costs and the usual sources of capital have uncertainties blocking them.

(iv) 'D' is perishable item, with more than 80% of its shelf life over.

PART C — (5 × 8 = 40 marks)

Answer ALL questions, choosing either (a) or (b).

Each answer should not exceed 600 words.

16. (a) What is Weighted Average Cost of Capital (WACC)? How to calculate it?

Or

(b) (i) A company has not been paying dividend to its shareholders from last 10 years. The face value of equity share is ₹ 100, but market price of the share is expected to be ₹360 after 2 years. Compute present value of the share, if required rate of return is 10% and EPS is ₹ 35.

(ii) Mrs. Kishore made investment in 12% bonds, face value of ₹ 100, maturity period 5 years. The opportunity cost rate is 12%. Bond will be realized after 5 years at a premium of Rs. 20 per bond. Compute the intrinsic value of a bond. Would you prefer to purchase this bond at Rs. 115?

17. (a) What is venture capital? How does venture capital work?

Or

(b) A firm has an EBIT of ₹ 4,00,000 and belongs to a risk class of 10% i.e. its overall cost of capital is 10%. What is the value of equity capital if it employees 5% debt to the extend of 30%, 40% or 50% of the total capital of Rs. 20,00,000? Assume that net operating income approach applies?

18. (a) A limited company is considering investing a project requiring a capital outlay of ₹ 2,00,000. Forecast for annual income after depreciation but before tax is as follows. Depreciation may be taken as 20% on original cost and taxation at 50% of net income.

Year	1	2	3	4	5
Income after depreciation but before tax ₹	1,00,000	1,00,000	80,000	80,000	40,000

You are required to evaluate the project according to each of the following methods : (i) Pay-back method (ii) Rate of return on average investment method (iii) Discounted cash flow method taking cost of capital as 10% (iv) Internal rate of return method.

Or

(b) What are NPV and IRR? Why does NPV and IRR conflict and which is better NPV or IRR?

19. (a) Explain the factors that affect dividend policy of a firm.

Or

(b) The following information has been extracted from the records of a company. Product cost sheet.

Raw materials	₹ 45
Direct labour	20
Overheads	40
Total	105
Profit	15
Selling prices	120

Raw materials are in stock on an average for two months.

(i) The materials are in process on an average for one month. The degree of completion is 50% in respect of all elements of cost.

(ii) Finished goods stock on an average is for one month.

(iii) Time lag in payment of wages and overheads is 1½ weeks.

(iv) Time lag in receipt of proceeds from debtors is 2 months.

(v) Credit allowed by suppliers is one month.

(vi) 20% of the output is sold against cash.

(vii) The company expects to keep a cash balance of Rs. 1,00,000.

The company is poised for a manufacture of 1,44,000 units in the next year.

You are required to prepare a statement showing the working capital requirements of the company.

20. (a) Rapid Heal Tech Ltd. (RHTL) is a leading IT security solutions and ISO 9001 certified company. The solutions are well integrated systems that simplify IT security management across the length and depth of devices and on multiple platforms. RHTL has recently developed an Antivirus software and company expects to have life cycle of less than one year. It was decided that it would be appropriate to adopt a market skimming pricing policy for the launch of the product. This software is currently in the introduction stage of its life cycle and is generating significant unit profits.

Required

(i) Explain, with reasons, the changes, if any, to the unit selling price that could occur when the software moves from the introduction stage to Growth stage of its life cycle.

(ii) Also suggest necessary strategies at this stage.

Or

(b) Extracts from financial accounts of X, Y, Z Ltd. are

	Year I		Year II	
	Assets	Liabilities	Assets	Liabilities
	₹	₹	₹	₹
Stock	10,000		20,000	
Debtors	30,000		30,000	
Payment in advance	2,000		–	
Cash in hand	20,000		15,000	
Sundry creditors		25,000		30,000
Acceptances		15,000		12,000
Bank overdraft		–		5,000
	62,000	40,000	65,000	47,000