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**PRESIDENCY UNIVERSITY
BENGALURU**

SCHOOL OF MANAGEMENT

MAKE UP EXAMINATION – JAN 2023

Course Code: MBA 2024

Course Name: Financial Management

Program: MBA

Date: 20-JAN-2023

Time: 09.30AM – 12:30PM

Max Marks: 100

Weightage: 50%

Instructions:

(i) Read the all questions carefully and answer accordingly.

Part A [Memory Recall Questions]

Answer all the Questions. Each question carries Three marks.

(10Qx 3M= 30M)

1. Working Capital Management is a crucial function of a CFO as it affects both profitability and liquidity of a business. List out any four factors that influence the extent of requirement of working capital of a business. (C.O.No.4) [Knowledge Level]
2. Net Present Value (NPV) is a very widely used criteria to financially evaluate projects. State any two advantages and two disadvantages of this criterion. (C.O.No.3) [Knowledge Level]
3. Projects are generally classified as Mutually Exclusive and Independent. State the NPV acceptance rule for both these types of projects. (C.O.No.3) [Knowledge Level]
4. Cash Cycle / Net Operating Cycle is a variable that is used in assessing the working capital requirement of a business. In this regard, rewrite the components of the Cash Cycle (formula). (C.O.No.4) [Knowledge Level]
5. Businesses employ leverage in order to magnify their earnings and it is generally of two types, Operating Leverage and Financial Leverage. Define both Operating and Financial Leverage. (C.O.No.2) [Knowledge Level]
6. Working Capital Policy of a business, depends upon the risk appetite of the management. In this context outline a Aggressive Working Capital Policy. (C.O.No.4) [Comprehension Level]
7. Time Value of a Money is an important concept used in financial management. Recall any three reasons why time value needs to be applied in financial decision making. (C.O.No.1) [Knowledge Level]
8. Issue of Bonds is one of the means of raising debt capital for a business. These Bonds could be of several types including Non Coupon Bonds. Indicate what is a Non Coupon Bond and its implication for the issuer. (C.O.No.2) [Comprehension Level]
9. Capital Structure is the mix of Debt and Equity in the Capital of a Company. State any four 5 factors that affect the Capital Structure of a Company. (C.O.No 2) [Knowledge Level]

10. Decisions in Corporate Finance is broadly classified into Investment, Financing and Dividend Decisions. Briefly state the scope of Dividend Decision. (C.O.No.1) [Knowledge Level]

Part B [Thought Provoking Questions]

Answer all the Questions. Each question carries Eight marks. (5Qx8M=40M)

11. As a management consultant suggest the ways and means to meet the need for working capital in the case of a newly started business .You are required to state the considerations involved in estimating the amount of working capital requirement. (C.O.No.4) [Comprehension]
12. Vinay & Vikas Ltd is considering investment in a project that costs Rs 10,00,000.The life of the project is 5 years and estimated salvage value is zero. Tax rate is 35% The company uses straight line method of depreciation and the proposed project has estimated earnings before depreciation and tax as detailed below.

Year	Earnings before depreciation and tax
1	2,50,000
2	2,50,000
3	3,00,000
4	3,00,000
5	5,00,000

Determine the average rate of return on investment. (C.O.No.3) [Application]

13. Black and White company is engaged in a large scale manufacturing business for the last 10 years. It is planning to reduce its operating cycle. Based on the current data given below compute the present operating cycle and cash cycle to enable future decisions by the management. (C.O.No.4) [Application]

Balances	1-1-2021	31-12-2021
Raw Materials	360	400
Work in progress	480	600
Finished Goods	720	700

For the Year:

Raw Materials	4,500
Manufacturing Overheads	3,900
Administration Overheads	2,700
Sales	30,600

AVERAGES:

Average accounts receivables	1360
Average accounts payables	1040

14. SSR company is planning an expansion program which will require Rs 60 Crores and can be funded through any one of the three following options:
1. Issue further equity shares of Rs.100 each at par.

2. Raise a 15% loan
3. Issue 12% preference shares.

The present paid up Equity capital is 120 crores and the annual EBIT expected is 30 crores after the expansion .The tax rate is 35%.Calculate the EPS under all the three financing options indicating the alternative giving the highest return to equity shareholders.

(C.O.No.2) [Application]

15. BE Tyres Ltd. and XL Tyres Ltd., are rival companies with the following financial information:

Particulars	BE Tyres Ltd.	XL Tyres Ltd.
	Amount in Rs (Lacs)	Amount in Rs (Lacs)
Sales	800	1200
Variable Cost	300	600
Fixed Cost	200	200
Interest Cost	100	80

Another Company by name DU Tyres Ltd. is having a Operating Leverage of 2 and Financial Leverage of 1.75. As an analyst, you are required to determine which of the above three companies is taking on more business and financial risk

(C.O.No.4) [Application]

Part C [Problem Solving Questions]

Answer all the Questions. Each question carries Fifteen marks.

(2Qx15M=30M)

16. Brilliant Company has an investment opportunity costing Rs 8,00,000 with the following expected net cash flows after taxes and before depreciation:

Year	Net cash flows Rs.
1	1,40,000
2	2,80,000
3	2,60,000
4	2,60,000
5	3,00,000
6	5,00,000
7	3,40,000

Using 10% as the cost of capital, determine the following

- a) Payback period
- b) Net present value at 10% discount factor
- c) Profitability index at 10% discount factor
- d) Internal rate of return (use 22% and 26% discount factor)

(C.O.No. 3) [Application]

17. First Automobiles Ltd. is currently using Rs 60 lacs as working capital. The Company has sought your help in determining if the Working Capital used by them is excessive or optimal. The production evenly spread out for each month is 100 units. The Ratio of Costs to Selling Price is as follows:

Raw Materials	40%
Wages	20%
Overheads	20%

Raw Materials conversion period is 1 month.

WIP (consisting of 100% raw material, 50% of wages and 50% of overheads) conversion period is 0.5 (Half) month

Finished Goods Conversion Period is 2 months.

Credit allowed by creditors of raw materials is 1 month.

Credit given to customers is 2 months.

The firm always maintains a cash balance of Rs 5 Lacs.

The selling price per unit is Rs 10000.

Considering the above information, provide your opinion to the Company with full workings.

(C.O.No. 4) [Application]