

Seat No. : _____

AB-129

April-2023

Int. MBA, Sem.-IV

Fundamentals of Financial Management

Time : 2:30 Hours]

[Max. Marks : 70

- Instructions :** (1) Show necessary calculations as the part of your answer.
(2) Use of non-scientific calculator is allowed.

1. (A) Discuss in detail scope of finance function and its importance. 7
(B) Compute the present value of the following future cash flows, assuming a request rate of 10% : 7
(a) ₹ 100 a year for years 5 through 10 and
(b) ₹ 100 a year for year 1 through 3, nil in years 4 through 5 and ₹ 100 a year for years 6 through 10.

OR

- (A) What is financial management ? Briefly describe the three reasons why profit maximization fails to be consistent with wealth maximization. 7
(B) Company XYZ is establishing a sinking fund to retire ₹ 5,00,000, 8 % debenture 10 years from today. The company plans to put a fixed amount into the fund each year for 10 years. The first payment will be made at the end of the current year. The company anticipates that the funds will earn 6% a year. What equal annual contributions must be made to accumulate ₹ 5,00,000, 10 years from now ? 7
2. The ABC Ltd. has following capital structure on 31.03.2022 : 14
- | | |
|-----------------------|-----------------|
| Equity capital | 1,50,000 |
| Reserve | 40,000 |
| 12% preference shares | 10,000 |
| 15% debentures | 50,000 |
| Total | 1,50,000 |

The company falls under 40% tax bracket. The cost of equity capital and that of reserve to be taken at 18% and 16% respectively. The company is presently considering a project investment costing ₹ 50,000 which is planned to be financed through 20% from internal accruals and the balance from the issue of 17% new debentures.

Answer the following :

- (1) Calculate the weighted average cost of capital before the project investments.
(2) Calculate the marginal weighted average cost of capital of the new project assuming that the cost of reserves will remain unchanged.

OR

The balance sheet of SHAH Ltd. as on 31.12.2022 is as under :

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Liabilities	₹	Assets	₹
Equity capital (Each of ₹ 1.0)	1,00,000	Net fixed assets	4,00,000
Reserves	80,000	Current assets	2,50,000
14% Pref. Shares	30,000		
15% Debentures	2,50,000		
20% Term Loan	1,40,000		
Current Liabilities	50,000		
	6,50,000		6,50,000

Additional Information :

- (1) The average market price of equity share is ₹ 30, the expected dividend in the next year is 24%. The dividend grows at 11%.
- (2) The tax bracket of the company is 40%.
- (3) The cost of retained earnings is 2% less than cost of equity capital.

Answer the Following :

- (i) Calculate the cost of equity under the dividend growth model.
 - (ii) Calculate the weighted average cost of capital of the company using the book value weights.
3. (A) 'Modigliani – Miller approach is based on unrealistic assumptions.' – Discuss. 7
- (B) Companies Alpha and Beta are identical in all respects except that company Alpha is unlevered, while capital of company Beta includes 10% debentures of ₹ 8,00,000. If tax rate is 50%, net operating income is ₹ 2,00,000 and rate of equity capitalisation is 10%, calculate the following : 7
- If all the conditions of M-M approach are satisfied, compute the market values of both companies.
4. XYZ Company prepare a statement showing the working capital requirements for a level of activity at ₹ 1,56,000 units of production. The following information is available for your calculations : 14

Raw material	₹ 90/unit
Direct labour	₹ 40/unit
Overheads	₹ 75/unit
Total cost	₹ 205/unit
Profit	₹ 60/unit
Selling price	₹ 265/unit

Additional information :

- (1) Raw material in stock: Average 1 month
- (2) Work in progress (50% completed with full material consumed) : Average 4 weeks.

- (3) Finished Goods in stock: Average 1 month.
- (4) Credit allowed by suppliers: Average 1 month.
- (5) Time lag in payment from debtors is 2 months.
- (6) Average lag in payment of wages is 1.5 weeks.
- (7) Average lag in payment of overheads is 1 month.
- (8) 20% of the output is sold against cash.

5. Answer any **two** :

(A) The expected cash flows of a project are as follows :

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Initial Investment : ₹ 1,00,000

Year	Cash flow (₹)
1	25,000
2	40,000
3	40,000
4	50,000

The cost of capital is 12%. Calculate the following :

- (1) Net present value
- (2) Profitability Index
- (3) Internal rate of return

(B) Determine the ARR from the following data :

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Particulars	(₹)
Cost	56,125
Annual estimated income after depreciation & income tax (₹)	
Year 1	3,375
Year 2	5,375
Year 3	7,375
Year 4	9,375
Year 5	11,375
Estimated life(yrs)	5
Working capital	2,000
Estimated salvage value	3,000

From the above information ascertain project should be acceptable or not.

(C) Define capital budgeting and state its objectives. Explain Net present value along with its advantages and limitations.

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