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1605N463

Candidate's Seat No : _____

MBA DM/SIBFT Sem.-2 Examination
DM-202

Fundamentals of Financial Management
May-2025

Time : 2-30 Hours]

[Max. Marks : 70

Instructions:

- Question no 1 to 5 carry 14 marks each.
- In question 5, each question is of 2 marks.

Q.1.(A) You want to take a world tour which costs Rs.20,00,000. The cost is expected to remain unchanged in nominal terms. You are willing to save annually Rs.90,000 to fulfill your desire. How long will you have to wait if your savings earn a return of 14 Percent per annum? [$\log 4.11=0.6133$ & $\log 1.14=0.569$] (07)

OR

Q.1.(A) (i) Compute the value of a preference stock, consider an 8-year, 10% preference stock with a par value of Rs. 1000. The required return on the stock is 9%. (07)

(ii) Explain the components of Financial system.

Q.1.(B) How does a financial manager contribute to the long-term financial health and Strategic decision-making of a company? (07)

Q.2 Attempt any TWO questions: (14)

(a) The controller of General Electronics corporation of India Ltd has been analysing the firm's policy regarding computers, which are now being leased on a yearly basis on rental amounting to Rs 1,00,000 per year. The computers can be bought for Rs 5,00,000. The purchase would be financed by 16 % loan repayable in 4 equal annual instalments.

On account of rapid technological progress in the computer industry, it is suggested that a 4 year economic life should be used, instead of the 10 year physical life. It is estimated that the computers would be sold for Rs 2,00,000 at the end of 4 years.

The Company uses the straight line method of depreciation. Corporate tax rate is 50 %. Comment on whether the equipment should be bought or leased?

(b) Redemption Ltd. issued Rs 100 lakh 14% debentures of Rs 100 each redeemable at par after 5 years and calculate cost of debt if the debentures are issued at 10% premium with 5% floatation cost.

(c) Nova Industries Ltd. plans to raise ₹18,00,000 through a rights issue. The company currently has 1,50,000 equity shares outstanding, which have recently been trading in the range of ₹120 to ₹135. On recommendation from its financial consultants, the company decides to offer the rights at a subscription price of ₹110 per share, expecting full subscription.

Required:

a) How many new shares must Nova Industries Ltd. issue to raise the desired funds?

- (b) How many existing shares will be required to subscribe to one new share?
- (c) What is the theoretical value of a right if the current market price is ₹125 with rights and the subscription price is ₹110?

Q.3 Attempt any TWO questions:

(14)

- (a) A company is considering an investment proposal to install new milling controls at a cost of Rs. 50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated CFBT from investment proposals are as follows:

Year	CFBT(Rs)
1	10,000
2	10,692
3	12,769
4	13,462
5	20,385

Compute the following:

- 1) Payback period
- 2) ARR
- 3) NPV @10% discount rate
- 4) PI

- b) Skylark Airways is planning to acquire a light commercial aircraft for flying class clients at an investment of Rs 50,00,000. The expected cash flow after tax for the next three years is as follows:

Year 1		Year 2	
CFAT	Probability	CFAT	Probability
14,00,000	0.1	15,00,000	0.1
18,00,000	0.2	20,00,000	0.3
25,00,000	0.4	32,00,000	0.4
40,00,000	0.3	45,00,000	0.2

The company wishes to take into consideration all possible risk factors relating to an airline operations. The company wants to know:

- i) The expected NPV of this venture with 6% risk free of interest.
- ii) Standard deviation in the expected value.

- c) Write a note on important determination of the capital structure of a firm.

Q.4.(A) Compare and contrast the relevance and irrelevance theories of dividend policy.

(07)

Q.4.(B) The following information is available in respect of the inventory costs of a firm:

Total annual consumption= 600 units

Cost per unit= Rs.6

(07)

Order Cost= Rs.10 per order
 Carrying cost= 20% of the value
 Discount of 5% has been offered on an order of 200 units.
 Evaluate the discount offer.

OR

Q.4.(A) The board of directors of PQR Textiles Ltd. Requests you to prepare a statement showing the working capital requirements for a production level of 60,000 units for the year. The cost structure for the company's product is as follows:

(07)

Cost per Unit (Rs.)

Raw materials: 30

Direct labor: 8

Overheads: 22

Total Cost: 60

Profit: 15

Selling Price: 75

Additional Information:

(a) Raw materials are held in stock for 3 months on average.

(b) Work in progress (WIP) is valued at 100% materials and 50% each for labor and Overheads for half a month's production.

(c) Finished goods remain in stock for 1.5 months on average.

(d) Suppliers allow 1.5 months of credit.

(e) Customers are allowed 2.5 months of credit.

(f) A minimum cash balance of Rs. 40,000 is expected to be maintained.

Prepare a statement of working capital requirements.

Q.4.(B) You have been asked to prepare a cash budget for the next quarter, January through March, for Jahanara Fashions. They have provided you with the following information:

(07)

(a) Sales are expected to be: Rs.400,000 in January, Rs.400,000 in February, and Rs.600,000 in March. All sales will be in cash.

(b) The estimated purchases are: Rs.380,000 in January, Rs.360,000 in February, and Rs.450,000 in March. (c) Payments for purchases will be made after a lag of one month. Outstanding on account of purchases in December last are Rs.350,000.

(d) The rent per month is Rs.10,000 and the partners' personal withdrawal per month is Rs.25,000.

(e) Salaries and other expenses, payable in cash, are expected to be: Rs.25,000 in January, Rs.20,000 in February, and Rs.30,000 in March.

(f) They plan to buy furniture worth Rs.40,000 on cash payment in January.

(g) The cash balance at present is Rs.6,000. Their target cash balance, however, is Rs.15,000.

What will be surplus/ deficit of cash in relation to their target cash balance

Q.5. Explain the following in brief: (Any seven)

(14)

i) Net income approach

ii) What is the present value of Rs. 15,00,000 receivable 8 years, hence if rate of discount is 15%?

iii) WACC

iv) Profitability index

v) Bonus share

vi) Limitations of Walters's model

vii) Types of bonds

viii) Determinants of working capital (Bullet points only)

ix) Formula of Walter & Gordon's model of share valuation.