

School of Finance and Commerce

Master of Business Administration in Financial Management Semester End Examination - Aug 2024

Duration : 180 Minutes
Max Marks : 100

Sem I - H1PE104B - Financial Management

General Instructions

Answer to the specific question asked

Draw neat, labelled diagrams wherever necessary

Approved data hand books are allowed subject to verification by the Invigilator

- | 1) | What is the difference between accounting profit and cashflows? | K1(2) | | | | | | | | | | | | | | | |
|----------|---|----------|------------|----------|---|-----|---|---|----|----|---|----|----|---|----|----|--------|
| 2) | Explain the advantages and disadvantages of using debt financing for a company. | K2(4) | | | | | | | | | | | | | | | |
| 3) | "Wealth maximisation is superior criteria compared to profit maximisation". Explain | K2(6) | | | | | | | | | | | | | | | |
| 4) | The management of a company has two alternative projects under consideration. Project A requires a capital outlay of Rs 1,20,000 but Project B needs Rs 180,000. both are estimated to provide a cashflow for 5 years: A- 40,000 per year and B- Rs 58,000 per year. The cost of capital is 10%. Show which of the two projects is preferable from the viewpoint of Internal Rate of return(IRR). | K3(9) | | | | | | | | | | | | | | | |
| 5) | i) Calculate Market price per share as per Walter's Model when, $r = .12$, $k = .10$, $EPS = Rs\ 4$, and $D = Rs.\ 2$ per share. ii) Explain Walter's Model and state it's assumption. | K3(9) | | | | | | | | | | | | | | | |
| 6) | Do you feel that a dividend decision is backed by a theoretical framework? What are different dividend theories? Describe each of them briefly. | K5(10) | | | | | | | | | | | | | | | |
| 7) | A firm has a capital structure of Rs 100,000. The equity capital is of Rs 100 each and debt carries rate of interest of 10% p.a. Further the firm has the following combination of components of this structure: Table For calculating the impact on EPS of various levels of EBIT, are i) 7500 ii) 10,000. Tax rate is assumed to be 40%. <table style="margin-left: 20px; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Case No.</th> <th style="text-align: left;">Equity (%)</th> <th style="text-align: left;">Debt (%)</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>100</td> <td>0</td> </tr> <tr> <td>2</td> <td>75</td> <td>25</td> </tr> <tr> <td>3</td> <td>50</td> <td>50</td> </tr> <tr> <td>4</td> <td>25</td> <td>75</td> </tr> </tbody> </table> | Case No. | Equity (%) | Debt (%) | 1 | 100 | 0 | 2 | 75 | 25 | 3 | 50 | 50 | 4 | 25 | 75 | K4(12) |
| Case No. | Equity (%) | Debt (%) | | | | | | | | | | | | | | | |
| 1 | 100 | 0 | | | | | | | | | | | | | | | |
| 2 | 75 | 25 | | | | | | | | | | | | | | | |
| 3 | 50 | 50 | | | | | | | | | | | | | | | |
| 4 | 25 | 75 | | | | | | | | | | | | | | | |
| 8) | Determine cost of capital: a) If the cost of debt for XYZ Ltd is 15% (effective rate) and its tax rate is 40% then calculate cost of debt. B) ABC Ltd sells a new issue of 6% 1000 irredemable debentures to raise Rs 100,000 and realized the full face value of Rs 100. The company falls in 40 % tax bracket. Debts are issued @ 10% premium. Find cost of debt. C) Jain and co sells a new issue of 6% 1000 irredemable debentures of Rs 100 each @ 10% discount. The company falls in 40% tax bracket. Find the ost of debt. D) Calculate | K5(15) | | | | | | | | | | | | | | | |

the cost of 10% Preference shares of Rs 10,000 preference shares whose face value is Rs 100. the market price of share is currently Rs 115. E) A company issues 10,000 8 % preference shares of Rs 100 each redeemable after 20 years at Face value. The flotation cost are Rs 3 per share, Find the cost of debt.

9) Explain the various short- and long-term sources of capital available to the business. Comment why it is difficult for small business to raise funds from the primary market? K5(15)

10) A firm whose cost of capital is 10% is considering two mutually exclusive projects X and Y, the details of which are: Table Evaluate the options by computing i) NPV at 10%. ii) PI iii) IRR for 2 projects K6(18)

| | Year | Project X | Project Y |
|--------------|------|-----------|-----------|
| cost | 0 | (100,000) | (100,000) |
| Cash Inflows | 1 | 10000 | 50000 |
| | 2 | 20000 | 40000 |
| | 3 | 30000 | 20000 |
| | 4 | 45000 | 10000 |
| | 5 | 60000 | 10000 |