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RV COLLEGE OF ENGINEERING®

(An Autonomous Institution affiliated to VTU)

VI Semester B. E. Regular Examinations Sept/Oct - 2024

ELEMENTS OF FINANCIAL MANAGEMENT (ELECTIVE)

Time: 03 Hours ***Maximum Marks: 100***

Instructions to candidates:

1. Answer all questions from Part A. Part A questions should be answered in first three pages of the answer book only.
2. Answer FIVE full questions from Part B. In Part B question number 2 is compulsory. Answer any one full question from 3 and 4, 5 and 6, 7 and 8 and 9 and 10.
3. Usage of interest factor tables is permitted

PART-A

			M	BT	CO
1	1.1	List the three broad areas of financial decision making.	02	01	01
	1.2	What is the primary function of a financial intermediary in Indian financial system?	02	02	01
	1.3	What is the meaning of "perpetuity" in the context of Time value of money?	02	02	01
	1.4	Distinguish between the terms, "Market Risk" and "Unique Risk".	02	02	01
	1.5	List the 3 distinct features of capital expenditure.	02	01	02
	1.6	What is meant by the term, "Cost of retained earnings"?	02	02	02
	1.7	Distinguish between 'primary Market' and 'Secondary market'.	02	02	03
	1.8	Distinguish between' Initial Public Offer' and 'Follow on public offer'.	02	02	03
	1.9	Distinguish between the terms –Absorption and Consolidation in the context of Mergers.	02	02	04
	1.10	Distinguish between the terms-call option and put option.	02	02	04

PART-B

			M	BT	CO
2	a	What is meant by a financial market? Summarize the categorization of financial markets based on several criterion.	08	03	01
	b	List any four types of financial intermediaries prevalent in India. Evaluate the benefits of having financial intermediaries in the financial system.	08	03	01
3	a	An amount of $Rs1000/-$ is annually deposited for 5 years and the deposit earns a compound interest rate of 10%. What will be the value at the end of 5 years? Assuming that each deposit occurs at the end of the year, determine the future of annuity.	05	03	01
	b	Your friend promises to give you $Rs.1000/-$ 6 years later. What is the present value of this amount if the interest rate is 10%?	05	03	01
	c	An investor expects to receive the following cash flows from an asset. $Year$: 1, 2, 3 $Cash\ Flow\ (Lakhs\ in\ rupees)$: 20, 30, 220 The discount rate for cash flows is 16%. Determine the value of the Asset.	06	03	01

$Year$	1	2	3
$Cash\ Flow\ (Lakhs\ in\ rupees)$	20	30	220

OR

4	a	A $Rs1000/-$ par value bond, bearing a coupon rate of 14% will mature after 5 years. The required rate of return on this bond is 13%.What is the value of Bond?	05	03	01
	b	An equity share is expected to provide a dividend of $Rs2/-$ and fetch a price of $Rs18/-$ a year hence. What price would it sell for now if investors required rate of return is 12%?	05	03	01
	c	The expected dividend per share is Rs.5/-.The dividend is expected to grow at the rate of 6% per year. If the price share now is Rs.50/-, determine the expected rate of returns of the equity share.	06	03	01
5	a	Enumerate the steps involved in the process of capital budgeting.	10	02	02
	b	The cashflow of a project being considered by a company are as follows:			

$Year$	0	1	2	3	4
$Cashflow(lakhs)$	1	0.3	0.3	0.4	0.45

		Calculate the Internal Rate of Returns of the project.	06	03	02
		OR			
6	a	Consider a debenture with a face value of $Rs.1000/-$. The coupon rate is 12%. The remaining period to maturity is 4 years. The current market price of the debenture is $Rs.1040/-$. Determine the cost of this debenture.	06	03	02
	b	The current market price of an equity is $Rs.80/-$. The dividend expected a year hence from now is $Rs.4/-$. The growth is expected to be at a constant rate of 10%. The floatation cost for new issue is 8%.Determine the cost of new equity.	05	03	02
	c	A project which is being evaluated by firm has a cost of capital of 12%. The initial investment is $Rs.1$ lakh. The benefits over the years are as shown below:			

$Year$	1	2	3	4
$Amount(Rs)$	25,000	40,000	40,000	50,000

		Determine the Benefit Cost Ratio of this investment and interpret whether this project is acceptable or not acceptable based on BCR?	05	04	02
7	a	Enumerate the five major ‘sources’ of long term finance available for organizations.	10	02	03
	b	Distinguish between ‘Operating Cycle’ and ‘Cash Cycle’ with the help of an illustration.	06	02	03
		OR			
8	a	These are three broad types of ‘Indices’ used to measure the movement of stocks in a market. Summarize the salient aspects of the three categories/types of indices.	06	02	03
	b	Enumerate the factors that have a crucial bearing on the working capital requirements of an organization	10	02	03
9	a	Express the plausible reasons for mergers. Analyze how the mergers could contribute to enable organizations have a competitive edge over other organizations.	10	04	04
	b	“The warrant represents a potential source of capital in the future when the organization needs to raise additional capital without offering other bonds or stock”. In the light of the this statement, determine the features of Warrants.	06	02	04
		OR			
10	a	Examine any four ways of raising the foreign currency finance.	10	04	04
	b	Bring out the rationale of organizations going for ‘Demerger’ Strategy.	06	03	04