SVKM's NMIMS
MUKESH PATEL SCHOOL OF TECHNOLOGY MANAGEMENT & ENGINEERING / SCHOOL OF TECHNOLOGY MANAGEMENT & ENGINEERING

Academic Year: 2022-23

Programme: B. Tech (CSBS) Year: IV Semester: VII

Subject: Financial Management

Date: 21 November 2022

Marks: 100
Time: 2.00 pm - 5.00 pm
Durations: 3 (Hrs)
No. of Pages: 13

Final Examination

Instructions: Candidates should read carefully the instructions printed on the question paper and on the cover of the Answer Book, which is provided for their use.

1) Question No. 1 is compulsory.
2) Out of remaining questions, attempt any 4 questions.
3) **In all 5 questions to be attempted**.
4) All questions carry equal marks.
5) **Answer to each new question to be started on a fresh page.**
6) **Figures in brackets on the right hand side indicate full marks**.
7) **Assume Suitable data if necessary.**
8) **Calculators are allowed**
9) **Present value and Future value tables attached to the Question paper.**

Q1		Answer briefly:	[20]
CO-2 ; SO-Understanding and comparison of each technique ; BL- Define & Compare.	a.	Explain IRR technique of Capital Budgeting. At IRR what are the values of NPV and Benefit Cost ratio.	[5/20]
CO-2 ; SO- understanding the importance of Diversification of portfolio ; BL- Define & Relate.	b.	Define Diversification of portfolio? Explain the relationship between Diversification and Risk.	[5/20]
CO- 2; SO-Apply the concept of Time value of money ; BL- Apply	c.	Mrs. Khan deposits ₹ 8000 quarterly, in a recurring deposit for 5 years in a bank. The bank offers 8% p.a. compounded quarterly. Find the effective rate of interest p.a. Also find the accumulated value.	[5/20]

CO- 2; SO- learning valuation of securities; BL- Remember & Apply valuation process	d.	The Market price of a ₹1000, par value bond carrying a coupon rate of 14% and maturing after 5 years in ₹ 1060. What is the YTM as per trial and error method, if the YTM lies between 12% and 13%?	[5/20]
Q2 CO-2; SO-Application of concepts of Risk and Return; BL- Apply	a.	A stock costing ₹ 200 pays no dividends. The possible prices that the stock might sell for at the end of the year and the probability of each rate are: **Possible prices (₹) / Probability** 250 / 0.1 220 / 0.25 240 / 0.35 270 / 0.2 300 / 0.1 (a) What is the expected Return? (b) What is the standard deviation of the returns?	[10/20]
CO-3; SO-Understanding the importance of Leverage; BL-Apply & Compare	b.	Calculate Operating Leverage, Financial Leverage and Combined Leverage under situations A,B and Financial plans I,II respectively from the following information relating to operating and capital structure of ABC Ltd. Installed capacity = 120000 units Actual production = 80000 units Selling price per unit = ₹ 25 Variable cost per unit = ₹ 15 Fixed cost: Situation A = ₹ 500000 Situation B = ₹ 600000 Capital structure: **Financial Plan**: **I** / **II** Equity: ₹ 5,00,000 / ₹ 7,50,000 Debt (cost of Debt @ 11%): ₹ 5,00,000 / ₹ 2,50,000 **TOTAL**: ₹ 10,00,000 / ₹ 10,00,000	[10/20]
Q3CO-2; SO- Application of Time value of money ; BL- solve and Evaluate	a.	(i) The PQR Ltd required ₹ 10,00,000 plant expansion is to be financed as follows: The firm makes a 15% down payment and borrows the remainder at 8% interest rate. The loan is to be repaid in eight equal annual installments beginning four years from now. You are required to calculate:	[10//20]

		1. The amount of Loan to be taken. 2. The amount of Loan at the beginning of fourth year. 3. Calculate the size of the required annual loan payment. (ii) Ms. Varsha has invested ₹ 67000 into deposit for 8 years. In the first two years the rate of interest is 9% p.a., in the next three years it is 8% p.a, in the next two years rate of interest increase to 9% and in the remaining phase rate of interest is 8% p.a. Calculate the amount accumulated by her after eight years.	
CO-2; SO-Estimating the working capital required for any project; BL- creation of estimate.	b.	The cost structure of Star Ltd is given below: **Particular** / **Cost per unit(₹)** Raw Material: 25 Direct labour: 10 Profit: 12 Selling price: 47 Additional information: 1. Cash balance required ₹ 250000 2. Raw materials are held in stock for 2 months. 3. Work-in-progress (assume 50% completion stage), will approximate to half a month's production. 4. Finished goods remain in warehouse for 1 month. 5. Suppliers of materials extend a 1 month credit and debtors are provided 2 month's credit. 6.185000 units of output for the year From the above mentioned information you are required to prepare working capital requirement.	[10//20]
Q4 CO-2; SO-Understanding cost of different sources of fund; BL- Create & Reframe.	a.	Moon light Ltd has the following capital structure **Sources of funds** / **In Lakhs(₹)** Equity capital: 4000 6% preference shares: 1000 8% Debenture: 3000 Total capital: 8000 The market price of the company's share is ₹ 15.Currently the company is paying dividend of ₹ 3 per share, which will grow at 5% for ever. The tax rate may be presumed at 35%.You are required to calculate Weighted average cost of capital. What will be the pre tax cost of debt if the cost of equity is 20%.	[10/20]

CO-2; SO-Understanding the importance of credit period; BL- Evaluation of credit policies	b.	Cool Ltd is making sales of ₹ 1550000 and it extends a credit of 90 days to its customers. However in order to overcome the financial difficulties, it is considering to change the credit policy. The proposed terms of credit and expected sales are given below Policy | Terms | Sales A | 45 days | 1536000 B | 60 days | 1560000 The Cool Ltd has a variable cost of 75% and fixed cost of ₹ 100000.The cost of capital is 12%.Evaluate different proposed policies and which policy should be adopted?(Assume 365 days in a year)	[10/20]
Q5 CO-2; SO- Understanding of various techniques of capital budgeting; BL- Solve & Evaluate		Cheetah Ltd. is assessing a project whose expected cash flows are as follows: **Year** | **Cash flows (Rs. In lakhs)** 0 | -2350 1 | 550 2 | 880 3 | 700 4 | 870 5 | 630 The cost of capital for Cheetah Ltd. is 13 percent. (i) What is the NPV of the project? (ii) What is the IRR of the project? If the IRR lies between 16% and 17%. (iii) What is MIRR if the reinvestment rate is 13%? (iv) What is the payback period? (v) What is the discounted payback period?	[20]
Q6 CO- 2; SO- Importance of working capital management; BL- Determining the factors impacting working capital	a.	Explain working capital management and its determinants.	[10/20]
CO-2; SO- understanding dimensions of credit	b.	Explain receivables management. State important dimensions of a firm's credit policy?	

<table>
<tr><td>policy;
BL- identifying the dimensions of receivables management</td><td></td><td></td><td></td></tr>
<tr><td>Q7

CO-1;
SO-importance of financial management;
BL- Understanding the role of finance manager in current scenario.</td><td>a.</td><td>Explain how the scope of finance function changed overtime. What role finance managers play in a modern finance?</td><td>[10/20]</td></tr>
<tr><td>CO-2;
SO-preparation of cash budget;
BL- creation of cash budget.</td><td>b.</td><td>From the following information prepare cash budget for the two months ended June 2022

Estimated Revenue and Expenditure:

<table>
<tr><th>Month</th><th>Total Sales</th><th>Material</th><th>Wages</th><th>Manufacturing overheads</th></tr>
<tr><td>April 22</td><td>320000</td><td>160000</td><td>75000</td><td>65000</td></tr>
<tr><td>May 22</td><td>250000</td><td>100000</td><td>57000</td><td>62000</td></tr>
<tr><td>June 22</td><td>400000</td><td>240000</td><td>99000</td><td>66000</td></tr>
</table>

1. Cash balance on 1st May 2022 was ₹ 50000.
2. Interest on Investment of amount ₹ 20000 received in the month of May.
3. Period of credit allowed by suppliers is 1 month.
4. 40% of sales are in cash. Credit sales are received in the following month.
5. Delay in payment of manufacturing overheads is 1 month.</td><td>[10/20]</td></tr>
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