

BALLARI INSTITUTE OF TECHNOLOGY & MANAGEMENT

(Autonomous Institute under Visvesvaraya Technological University, Belagavi)

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Course Code

M	B	A	2	0	2
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Second Semester MBA Degree Examinations, August 2026

FINANCIAL MANAGEMENT

Duration: 3 hrs

Max. Marks: 100

Note: 1. Answer any FOUR full questions from Question No. 1 to 7.

2. Question No. 8 is compulsory

3. Missing data, if any, may be suitably assumed

<u>Q. No</u>	<u>Question</u>	<u>Marks</u>	<u>(RBT:CO:PO)</u>
1. a.	Interpret the term financial services.	03	(3 :1 :1)
b.	Interpret the objectives of financial management.	07	(3 :1 :1)
c.	Examine the relationship of financial management with other functional	10	(3 :1 :1)
2. a.	Illustrate the word time value of money.	03	(3 :2 :2)
b.	Discuss the differences between simple interest and compound interest with examples.	07	(4 :2 :2)
c.	Elaborate on the concept of time value of money. Explain various techniques used to evaluate the value of money over time with examples.	10	(4 :2 :2)
3. a.	What are the primary sources of long-term finance for a company?	03	(3 :2 :3)
b.	Five years ago, Sona Limited issued 12 % irredeemable debentures at Rs.103, at Rs.3 premium to their par value of Rs.100. The current market price of these debentures is Rs. 94. If the company pays corporate tax at a rate of 35 %. Calculate its current cost of debenture capital.	07	(4 :2 :3)
c.	A company issues 10000, 10 % preference shares of Rs.100 each. Cost of issue is Rs.2 per share. Calculate cost of preference capital if these shares are issued (i) at par (ii) at a premium of 10 % and (iii) at a discount of 5 %.	10	(4 :2 :3)
4. a.	Write any two uses of NPV.	03	(3 :3 :4)
b.	A business invests Rs. 2,50,000 in a project that generates annual accounting profits of Rs. 45,000 for 7 years. Calculate the ARR if there is no residual value at the end of the project.	07	(4 :3 :4)
c.	Davangeri Ltd. desires to purchase a new machine in order to increase its present level of production. The cost of machine will be Rs. 1,05,000 and the net cash inflows during the life will be as follows:	10	(4 :3 :4)

Year	Net Cash inflows	Discount Factor	
		at 35%	at 40%
1	75,000	0.741	0.714
2	60,000	0.549	0.51
3	30,000	0.406	0.364
4	15,000	0.301	0.260
5	15,000	0.223	0.186

Calculate IRR.

5. a. Define optimum capital structure. 03 (3 :5 :5)

- b. Calculate operating and financial leverage from the following information. 07 (4 :5 :5)
- 10 % debentures Rs. 50,000
 - Selling price per unit Rs. 50
 - Number of units sold 1,000
 - Variable costs is 50 % of sales
 - Fixed cost amounted to Rs. 15,000
- c. Chaitanya Ltd. has equity share capital of Rs. 5,00,000 divided into shares of Rs. 100 each. It wishes to raise further Rs. 3,00,000 for expansion plan. The company plans financing schemes as follows. 10 (4 :5 :5)
- All equity shares
 - Rs. 2,00,000 in 10 % debentures and remaining amount in equities
 - All in 10 % debentures
 - Rs. 1,00,000 in equity shares and remaining amount in 8 % preference shares. The company's EBIT is Rs. 1,50,000 and tax rate is 40 %
- Determine EPS in each plan and comment on the implication of financial leverage.
6. a. Define the concept of working capital 03 (3 :4 :5)
- b. From the following information estimate the amount of working capital by operating cycle method taking 360 days in a year. 07 (4 :4 :5)
- Sales 2,000 units at Rs. 500 per unit
 - Material cost at Rs. 300 per unit
 - Labour cost at Rs. 100 per unit
 - Overheads at Rs. 50 per unit
 - Customers are given 60 days credit and 30 days credit is taken from creditors.
 - Raw materials for 30 days and finished goods for 20 days are kept in stock.
 - Production cycle period is 10 days.
- c. Following is the cost structure of a product and you are required to find out working capital requirement. 10 (4 :4 :5)
- | Elements of cost | Amount per Unit |
|------------------|-----------------|
| Raw Material | 70 |
| Direct material | 40 |
| Overheads | 60 |
| Total cost | 170 |
| Add: Profit | 30 |
| Selling Price | 200 |
- The following further particulars are available:**
- Raw materials are in stock on an average for one month.
 Materials are in process on an average for half a month.
 Finished goods are in stock on average of one month.
 Credit allowed by suppliers is one month
 Credit allowed to customers is two months.
 Lag in payment of wages is 1and half weeks.
 Lag in payment of overhead expenses is one month.
 One fourth of the output is sold against cash.
 Cash in hand and at bank is expected to be Rs. 20,000.
 You are required to prepare a statement showing the working capital needed to finance a level of activity of 80,000 units of production.
 You may assume that production is carried on evenly throughout the year. Wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

7. a. Show the meaning of dividend policy. **03** **(3 :4 :4)**
- b. A company issued 10,000, 10 % debentures of Rs.100 each at par on 1.4.2018 to be matured on 1.4.2028. The company wants to know the cost of its existing debt on 1.4.2023 when the market price of the debentures is Rs. 80. COMPUTE the cost of existing debentures assuming a 35 % tax rate. **07** **(4 :3 :4)**
- c. Explain the factors influencing capital structure of a company. **10** **(3 :3 :4)**

8. **Case Study**

PQR Ltd. is considering an investment proposal to install a new machine at a cost of Rs. 50,000. The machine has expected life of 5 years and no salvage value. The company pays 35 % tax. The company uses STLM of depreciation which assume is allowed for tax purpose. The cash flows before depreciation and tax are as under:

Year	PV Factor@10%	Cash Flows (CFBDT)
1	0.909	10,000
2	0.826	15,000
3	0.751	14,000
4	0.683	17,000
5	0.621	20,000

- a. Calculate PBP, ARR, PI and Payback period **10** **(4 :3 :4)**
- b. Calculate NPV and PI at 10 % discount rate **10** **(4 :3 :4)**

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