INSTITUTE OF MANAGEMENT STUDIES
END SEMESTER EXAMINATION --- MAY - JUNE 2023
MBA (FINANCIAL ADMINISTRATION) -- SEMESTER II
FINANCIAL MANAGEMENT

TIME: 3 HOURS **MAX MARKS: 60**

SECTION A
ATTEMPT ANY ONE QUESTION. QUESTION CARRIES 12 MARKS.

Q1. A financial analyst commented ". Since the revenue and cost of a project offset each other, we do not need to account for inflation in the capital budgeting proposals". Do you agree with the statement? Give reason for your answer. Your answer should be in bullet points.

[Maximum 700 words]

Q2. "Debt is considered to be cheaper than Equity" ---- Comment

[Maximum 700 words]

SECTION B
ATTEMPT ANY FOUR QUESTIONS. EACH QUESTION CARRIES 12 MARKS
SHOW NECESSARY CALCULATIONS

Q3. The current rate of interest on home loan offered by a commercial bank is 10.5% per annum. Loan is available for a maximum period of 20 years. Rohit is planning to buy a property that will cost him Rs. 52 lakhs. Bank can finance up to a maximum of 85% of the value of property, the remaining 15% has to be paid upfront by the purchaser to the builder before the loan is approved by the bank. As per terms of sale, the buyer of the property can get a cash discount of 10% of the value of the property. Rohit can manage 15% of the initial deposit to be made to the builder from his past savings. He is not sure about the EMIs that he will have to pay in case he takes the loan repayable in 10 years. Your are expected to advise Rohit. Show necessary calculations.

Q4. Avon Ltd. is investigating the feasibility of manufacturing one of the components needed for its finished product rather than purchasing it from an outside supplier. Its present supplier has just announced that he intends to increase the price from Rs. 100 to Rs. 125 per unit. The equipment needed to make this product can be purchased for Rs. 10 lakh, and it expected to have salvage value of Rs. 2,00,000/- at the end of the fifth year. Additional fixed costs excluding depreciation are estimated to increase by Rs. 1,00,000 per year. The variable costs of manufacturing each component will be Rs. 30 per unit. The company is subject to a 35% tax rate and 15% is appropriate cost of capital for this project. The company projects annual needs at 7,500 units per year for the 6-year period. The tax relevant rate of depreciation is 25% and there are no other assets in the 25% block. Advise the company whether it should continue buying from outside suppliers or start manufacturing on its own. Will your answer be different if the requirement of the company is only 6000 units per year.

Q5. Determine cost of capital or Hindustan Paper using Book Value and Market Value weights for the following information

Equity Shares:	Rs. 1,20,00,000 (Rs. 2,00,00,000)
Retained Earnings:	Rs. 30,00,000
Preference Shares:	Rs. 9,00,000 (Rs. 10,40,000 MV)
Debentures:	Rs. 36,00,000 (Rs. 33,75,000 MV)

Equity shares are quoted at Rs. 130 per share and a new issue priced at Rs. 125 will be fully subscribed; flotation costs will be Rs. 5 per share. During the previous year's dividends have steadily grown from Rs. 10.60 to Rs. 14.19. Dividend at the current rate is expected to be Rs. 15 per share. Preference shares were at 15%; face value Rs. 100 would realize Rs. 105 per share. The company proposes to issue 11 year 15% debentures but the yield on debentures of similar maturing and risk class is 16%; flotation cost is 2%. Corporate tax rate is 35%. Shareholders are in tax slab of 25%. Ignore dividend tax.

Additional Information:

i) Cash balance to be maintained Rs. 65000, any additional amount to be invested in marketable securities and any short fall are to be managed through short term loan from bank.

ii) Credit sales are realized in following two months in 6:4 ratios respectively.

iii) Payment to creditors just after a month from the date of supply.

iv) Labor is paid weekly on first day of next week.

v) Equipments and furniture are to be purchased amounted to Rs. 750000 in the month of February additional amount to be arranged from bank loan.

Q.6 A producer needs a machine with a capacity of production 200000 units. He has got two proposals, Proposal A and B. A will have a fixed cost of Rs. 80000 per year but the capacity of 200000 units is reached profit for this product will be Rs. 80000.
Machine B will have fixed cost Rs. 51000 per year and profit at 200000 units Rs.69000. the product is priced Rs. 2/- per unit. Find out the sales volume at which two machines produces equal profit and amount of profit.

Q.7 Calculate all Material variances from the data given bellow:

		Standard		Actual	
Material		Quantity (Kg.)	Price Per Kg.	Quantity (Kg.)	Price Per Kg.
A		900	40/-	850	43/-
B		700	62/-	850	65/-
	Total	1600		1700	
	Loss	160 (10%)		200	