K.J. Somaiya Institute of Management Studies & Research
Course: MHRDM II Semester
Sub: Financial Management

Time: 3 Hours **Marks: 50**

Note: 1) Attempt *any five* questions

2) All questions carry ten marks each

3) You may use interest factor tables and scientific calculator

1. A company is considering, purchase of new machinery which costs Rs 8, 00,000 and which has an estimated life of 10 years. This machine will generate additional sales of Rs 4, 00,000 per year, while increased cost of maintenance will be Rs 1, 00,000 per year. The cost of machine is depreciated on a straight line and has no salvage value at the end of its 10 year life. The company has a cost of capital of 12% and a corporate tax rate of 40%. You are required to calculate:
   i. Annual cash flow
   ii. Net present value
   iii. Payback period
   iv. Profitability Index.

   Should the company purchase the new machine?

2. The costs of specific sources of capital for Elegant Paper Ltd are as follow-
   Cost of debt - 9%
   Cost of preferences - 14%
   Cost of equity - 17%

   The capital structure of Elegant Paper Ltd is as follows-

Source of capital	Book value (Rs in million)	Market Value (Rs in million)
Equity	50	100
Preference	10	9
Debt	80	75

   Calculate the weight average cost of capital (WACC) for the Elegant papers using book value weights and market value weights.

3. XYZ Co provides the following information about the elements of cost-

   Material 40%
   Labour 20%
   Overheads 20%

   The following further information is available-

   - It is proposed to maintain a level of activity of 200000 units.

- Selling price Rs 12 per unit
- Raw materials are expected to remain in store for an average period of one month.
- Material will be in process on an average for half a month
- Finished goods are required to be in stock for an average period of one month
- Credit allowed to debtors is two months
- Credit allowed by suppliers is one month.

You are required to prepare a statement of working capital requirements, if the desired cash balance is Rs 200000.

4. (a) Chetan Corporation requires 2000 units of a certain item per year. The purchase price per unit is Rs 30, the carrying cost of inventory is 25% of the inventory value and the fixed cost per order is Rs 1000.
(i) Determine the economic order quantity
(ii) What will be the total cost of carrying and ordering inventories when 4 orders of equal size are placed? (6 Marks)

(b) There are two options available to an investor. The first scheme (A) promises to pay Rs.1,50,000 at the end of 10 years if an investment of Rs.10,000 is made annually. The second scheme (B) promises to pay Rs.1,50,000 at the end of 8 years if Rs.15,000 is invested annually. Which of the two schemes is better for the investor? (4 Marks)

5. a) Explain as to how the wealth maximization objective is superior to the profit maximization objective.

b) Explain the important functions of financial management.

6. A project costs Rs 25 lakh and is expected to generate following cash flows (Rs in lakh) at the end of each year for next 5 years-

Year	1	2	3	4	5
Cash Inflow(Rs)	8	8	7	7	6

If the opportunity cost of capital is 12%, determine the NPV of the project using present value table. Should the project be accepted?

7. Following information is forecasted by the CS Ltd for the year ending 2016-

	Balance as at 1st April 2016	Balance as at 31st March 2017
Raw materials	45000	65356
Work in progress	35000	51300
Finished goods	60181	70175
Debtors	112123	135000
Creditors	50079	70469
Purchase of raw materials (all credit)		400000
Cost of production		750000
Cost of goods sold		915000
Operating cost		950000
Sales (all credit)		1100000

You may take one year as equal to 365 days. You are required to calculate-

a) Net operating cycle period
b) Number of operating cycle in a year
c) Amount of working capital requirement

8. Write short notes on any two-

a. Shareholders value creation
b. Decisions of Financial Management
c. Long term sources of finance
d. How to finance Working capital

Or

Assuming a discount rate of 15%, find out which one of the following gives the highest returns:-

a) Rs 1,60,000 available today
b) Rs 1,75,00 to be received after 8 years
c) Rs 25000 p.a. in perpetuity
d) Rs 10,000 per month for a year and Rs 1,00,000 at the end of the year
e) Rs 25,000 per year for the next 10 years.

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