



MBCP 2001

M.B.A. DEGREE EXAMINATION, MAY 2026

Second Semester

Common

FINANCIAL MANAGEMENT

(2023 Regulation)

Time : Three hours

Maximum : 75 marks

PART A — (5 × 4 = 20 marks)

Answer any FIVE questions.

1. Describe the core components of finance function.
2. X Ltd. has the following capital structure:

Equity (expected dividend 12%) - Rs. 10,00,000

10% preference Shares - Rs. 5,00,000

8% Loan - Rs. 15,00,000

You are required to calculate the weighted average cost of capital after tax, assuming 30% as the rate of income tax.

3. Project X initially cost Rs. 30,000. It generates the following cash flow.

Year	Cash inflows	Present value of Rs.1
1	8,000	.909
2	8,000	.826
3	7,000	.751
4	7,000	.683
5	5,000	.621

Taking the cut-off rate as 10% suggest whether the project should be accepted or not.

4. Calculate the operating and financial leverage of the following company

Particulars	Value
Equity capital	Rs. 6,00,000
10% debentures	Rs. 4,50,000
Output (units) per annum	Rs. 60,000
Selling price	Rs. 35
Fixed cost per annum	Rs. 7,00,000
Variable cost per unit	Rs. 10

5. A firm has an EBIT of Rs. 4,50,000. The cost of debt is 10% and the outstanding debt is Rs. 12,00,000. The overall capitalization rate (K_o) is 15%. Calculate the total value of the firm and the equity capitalization rate under NOI approach. What will be the change in K_e and value of the firm if the firm decides to raise a sum of 2,00,000 in debt and use the proceeds to pay off the equity shareholders?
6. Discuss the factors influencing the dividend policy of a firm.
7. Determine the various sources of working capital.
8. Design the working capital requirement of a firm using operating cycle period.

PART B — ($5 \times 8 = 40$ marks)

Answer any FIVE questions.

9. "The goal of profit maximization does not provide us with an operationally useful criterion". Explain.
10. Company 'XYZ' has the following capital structure
- Common shares — Rs. 40,00,000 (2,00,000 shares)
- 6% Preference shares — 10,00,000
- 8% Debentures — 30,00,000

The shares of the company sell for Rs. 20. It is expected that company will pay next year a dividend of Rs. 2 per share which will grow at 7% for ever. Assume a 50% tax rate. You are required to:

- (a) Compute a weighted average cost of capital based on existing capital structure
- (b) Compute the new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged, but the price of shares will fall to Rs. 15 per share.

11. ABC Ltd. is proposing to take up a project which will need an investment of Rs. 40,000. The net income before depreciation and tax is estimated as follows :

Year	Rs.
1	10,000
2	12,000
3	14,000
4	16,000
5	20,000

Depreciation is to be charged according to the straight line method. Tax rate is 30%. Calculate the accounting rate of return

12. An investment of \$200,000 is expected to generate the following cash inflows in six years :

Year 1: Rs. 70,000

Year 2: Rs. 60,000

Year 3: Rs. 55,000

Year 4: Rs. 40,000

Year 5: Rs. 30,000

Year 6: Rs. 25,000

Required: Compute payback period of the investment. Should the investment be made if management wants to recover the initial investment in 3 years or less?

13. A firm has a sale of Rs. 10,00,000, variable cost of Rs. 7,00,000 and fixed cost of Rs. 2,00,000 and debt of Rs. 5,00,000 at 10% rate of interest. What are the operating financial and combined leverage? If the firm wants to double its earnings before interest and taxes (EBIT). How much of a rise in sales would be needed on a percentage basis?

14. List out and explain in detail the various assumptions on which the NI and NOI capital structure theories are based.

15. Describe the key characteristics of a stable dividend policy.
16. Determine the use of Factoring as a source of working capital based on the benefits and drawbacks of factoring service.

PART C — (1 × 15 = 15 marks)

Answer the following.

17. Case Study (Compulsory)

Ajay and Sunil aged 50 years are friends from their childhood. They have set up A.S hotel/lodge 25 years ago in Vemula Wada (a pilgrim) place in Karimnagar. They are running their business as a joint owner. They had three types of the rooms and one conference hall with a capacity of 50 members.

The details of the rooms and the other details are as follows :

S.No.	Room Type	No of rooms	Tariffs (per day)
1	Non a/c	5	Rs. 500
2	A/c	10	Rs. 1,000
3	Executive suit	10	Rs. 2,000
4	Convention hall	1	Rs. 8,000 (8 hours)

Both owners used to take active participation in the business, right from the inception of their business they never had any bad remarks, with their services and maintenance, they have earned a goodwill in the market. They have never renovated their rooms from the starting of the business. From the year 2015 the occupancy rate of their rooms has gradually decreased. They have observed that 20% of the customers are not willing to stay after looking at the condition of the rooms, they have decided to renovate their rooms and the building in the year 2017. But they couldn't find the best alternative place to shift their business at least for few months. On an average the rooms used to be occupied for 20 days in a month, and the hall for 12 days.

Staff and the maintenance expenses including depreciation and interest used to be Rs. 3,20,000 per month. In April 2020, during lockdown they have decided to renovate the building and utilise the time at the best.

The details of the expenses to renovate the building are as follows.

S.No	Room Type	Estimated expenses per room Rs.
1	Non A/c	35,000
2	A/c	65,000
3	Executive suit	75,000
4	Convention hall	1,00,000
5	Office room	1,50,000

To arrange the finance required they have decided to sell the joint property at Rs. 12,00,000 and the balance they have decide to get a bank loan @ 9% per annum. They are expecting the full occupancy after the renovation. Staff and the maintenance expenses are expected to increase to Rs. 4,20,000 per month. Depreciation is estimated to be 5% p.m. on the amount invested for the renovation.

Questions:

- (a) How long it will take for them to get back their invested money?
- (b) Should they renovate the building by incurring a huge additional investment or run the business in the same condition?
- (c) Evaluate all the capital budgeting techniques.