

Present value interest factor of \$1 per period at i% for n periods, PVIF (i,n)

iod	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	11%	12%	13%	14%	15%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909	0.901	0.893	0.885	0.877	0.870
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826	0.812	0.797	0.783	0.769	0.756
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751	0.731	0.712	0.693	0.675	0.659
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683	0.659	0.636	0.613	0.592	0.572
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621	0.593	0.567	0.543	0.519	0.497
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564	0.535	0.507	0.480	0.456	0.432
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513	0.482	0.452	0.425	0.400	0.376
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467	0.434	0.404	0.376	0.351	0.327
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424	0.391	0.361	0.333	0.308	0.284
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386	0.352	0.322	0.295	0.270	0.247

II SEMESTER, MBA(BA)

SUPPLEMENTARY EXAMINATION SEPTEMBER-2019

MB-203 FINANCIAL MANAGEMENT

Time: 3:00 Hours

Max. Marks: 60

Note: All questions are compulsory

Present value interest factor of an (ordinary) annuity of \$1 per period at i% for n periods, PVIFA(i,n)

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	1.970	1.942	1.913	1.886	1.859	1.833	1.808	1.783	1.759	1.736
3	2.941	2.884	2.829	2.775	2.723	2.673	2.624	2.577	2.531	2.487
4	3.902	3.808	3.717	3.630	3.546	3.465	3.387	3.312	3.240	3.170
5	4.853	4.713	4.580	4.452	4.329	4.212	4.100	3.993	3.890	3.791
6	5.795	5.601	5.417	5.242	5.076	4.917	4.767	4.623	4.486	4.355
7	6.728	6.472	6.230	6.002	5.786	5.582	5.389	5.206	5.033	4.868
8	7.652	7.325	7.020	6.733	6.463	6.210	5.971	5.747	5.535	5.335
9	8.566	8.162	7.786	7.435	7.108	6.802	6.515	6.247	6.995	5.759
10	9.471	8.983	8.530	8.111	7.722	7.360	7.024	6.710	6.418	6.145
11	10.368	9.787	9.253	8.760	8.306	7.887	7.499	7.139	6.805	6.495
12	11.255	10.575	9.954	9.385	8.863	8.384	7.943	7.536	7.161	6.814
13	12.134	11.348	10.635	9.966	9.394	8.853	8.358	7.904	7.487	7.103
14	13.004	12.106	11.296	10.563	9.899	9.295	8.745	8.244	7.786	7.367
15	13.865	12.849	11.938	11.118	10.380	9.712	9.108	8.559	8.061	7.606
16	14.716	13.578	12.561	11.652	10.838	10.106	9.447	8.851	8.313	7.824
17	15.562	14.292	13.166	12.166	11.274	10.477	9.763	9.122	8.544	8.022

Future value interest factor of \$1 per period at i% for n periods, FVIF(i,n)

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	1.010	1.020	1.030	1.040	1.050	1.060	1.070	1.080	1.090	1.100
2	1.020	1.040	1.061	1.082	1.103	1.124	1.145	1.166	1.188	1.210
3	1.030	1.061	1.093	1.125	1.158	1.191	1.225	1.260	1.295	1.331
4	1.041	1.082	1.126	1.170	1.216	1.262	1.311	1.360	1.412	1.464
5	1.051	1.104	1.159	1.217	1.276	1.338	1.403	1.469	1.539	1.611
6	1.062	1.126	1.194	1.265	1.340	1.419	1.501	1.587	1.677	1.772
7	1.072	1.149	1.230	1.316	1.407	1.504	1.606	1.714	1.828	1.949
8	1.083	1.172	1.267	1.369	1.477	1.594	1.718	1.851	1.993	2.144
9	1.094	1.195	1.305	1.423	1.551	1.689	1.838	1.999	2.172	2.358
10	1.105	1.219	1.344	1.480	1.629	1.791	1.967	2.159	2.367	2.594

Q.1 Write short notes on any three of following:

(5 Marks each)

- Time value of money
- Internal Rate of Return
- Wealth maximization
- Financial Leverage

Q.2 A. A firm has two investment opportunities, each costing ₹100,000 and each having an expected profit as shown below:

Year	1	2	3	4
Project A	50,000	40,000	30,000	10,000
Project B	20,000	40,000	50,000	60,000

After giving due consideration to the risk criteria in each project the management has decided that project A should be evaluated at 10% cost of capital and Project B, a risky project should be evaluated with a 15% cost of capital.

Compute Net Present Value (NPV) of the project and suggest course of action if:

- Both the projects are independent (8 Marks)
- If both projects are mutually exclusive (4 Marks)

2.B From the following data of two projects A and B, calculate riskiness of the project based on Standard Deviation and suggest which project is riskier and why?

Cash outlay for each project is ₹700,000

(4+4=8 Marks)

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Project A	Prob	2,000	2,000	8,000	11,000	13,000
Project B	Prob	0.20	0.10	0.20	0.10	0.20
	CFs	15,000	13,000	11,000	9,000	8,000
	Probability	0.10	0.10	0.15	0.55	0.10

Q.3.A. Hari Enterprises Ltd. has equity share capital of ₹500,000 (face value of ₹100). To meet the expenditure of an expansion program, the company wishes to raise ₹300,000 and is having following alternatives as sources of funds:

- Plan A: To have full money from issue of equity
- Plan B: To have ₹100,000 from equity shares and ₹200,000 from borrowings from financial institution at 10% p.a.
- Plan C: To have full money from borrowings at 10% p.a.

The company has present earnings of ₹150,000. The corporate tax rate is 50%.

a) Calculate EPS for all plans & advise the most suitable plan to raise required funds. (3x2)+2=8 Marks)

Q.3.B. Calculate the degree of operating leverage and degree of financial leverage according to the data given below for companies X and Y: (3x2=6 marks)

	X	Y
Output in Units	70,000	25,000
Fixed costs	10,000	13,000
Variable cost/ unit	0.2	1.5
Interest on borrowed funds	5,000	18,000
Selling price per unit	0.6	5

Q.3.C. Financial leverage is a double-edged sword. Do you agree, why? (1 marks)

OR

Q.3 Mahajan Enterprises. faces three possible economic conditions very poor, poor, normal and good. Brightways' possible level of sales and operating expenses with their probability of occurrence are given in table below:

Sales	660	710			
Costs:					
Variable cost	330	355	400	440	580
Fixed cost	280	280	280	280	280
Total Cost	610	635	680	720	860
EBIT	50	75	120	160	300
ROI	10%	15%	24%	32%	60%

The company is considering two financial plans:

- Raise entire funds by issuing 50,000 ordinary shares at 10 per share
- Or to raise ₹250,000 by issuing 25,000 shares of ₹10 each and borrow 250,000 at 15%.

The tax rate of 50%.

- What are the effects of alternative plans on shareholders' earnings? (10 marks)
- Does state of economy have a bearing on choice of financial plan, please state in context of information given about Bright ways. (3 marks)
- Financial leverage is a double-edged sword. Do you agree? (2 Marks)

Q.4 A. Suppose you deposit each year starting following stream of funds ₹750, ₹1,000, ₹1,250, ₹1,500 and 1,750 in your savings bank account 1 to 5 years respectively. What are your deposits compound value at the end of 5 years, interest rate paid by the Bank being 6% p.a. (5+2 Marks)

Q.4 B. Assuming a loan of ₹100,000 at 9% per annum is to be repaid in 15 years. Determine the annual instalments to be paid? (3 Marks)