iii. PC Ltd. Sells its products on a gross profit of 20% on sales. Following information is extracted from its annual accounts for the year ended 31 March 2018. **5**

Particulars	Rs
Sales at 3 months credit	40,00000
Raw material	1200000
Wages- average time lag 15 days	960000
Manufacturing Expenses paid- 1-month arrears	1200000
Administrative expenses paid- 1-month arrears	480000
Sales promotion expenses- payable half yearly in advance	200000

The co. enjoys 1-month credit from supplier of Raw material and maintains a 2 months stock of Raw material and one and half month stock of finished goods. The cash balance is maintained at Rs. 100000 Assuming 8% margin, find out working capital requirement of PC Ltd.

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Total No. of Questions: 6 *Total No. of Printed Pages:4*

Enrollment No......................................

Faculty of Commerce

End Sem (Even) Examination May-2018

CM3CO11 Fundamentals of Financial Management

Programme: B.Com (Hons.) Branch/Specialisation: Commerce

Duration: 3 Hrs. **Maximum Marks: 60**

Note: All questions are compulsory. Internal choices, if any, are indicated. Answers of Q.1 (MCQs) should be written in full instead of only a, b, c or d.

Q.1 i. The objective of wealth maximization takes into account **1**
(a) Amount of returns expected
(b) Timing of anticipated returns
(c) Risk associated with uncertainty of returns
(d) All of these

ii. Finance Function comprises **1**
(a) Safe custody of funds only
(b) Expenditure of funds only
(c) Procurement of finance only
(d) Procurement & effective use of funds

iii. If the Present Value of Cash Inflows are greater than the Present Value of Cash Outflows, the project would be **1**
(a) Accepted (b) Rejected with condition
(c) Rejected with approval (d) Rejected

iv. In weighted average cost of capital, a company can affect its capital cost through **1**
(a) Policy of capital structure (b) Policy of dividends
(c) Policy of investment (d) All of these

v. Operating leverage = ……………. / EBIT **1**
(a) EPS (b) EBT (c) Sales (d) Contribution

vi. Which is not a technique of Capital Structure analysis? **1**
(a) Trading on equity (b) Capital gearing
(c) Capital budgeting (d) Cost of capital

vii. In net present value method profit ………… Is used- **1**
(a) After depreciation and tax (b) Before depreciation and tax
(c) Before depreciation and after-tax (d) None of these

viii. If the net present value of a project is ……….it will be accepted **1**
(a) Positive (b) Negative (c) Zero (d) None of these

ix. According to operating cycle concept working capital is **1**
(a) Net working capital
(b) Circulating working capital
(c) Operating capital
(d) Required liquid part of net working capital during operating cycle period

x. Nature of seasonal working capital is …………… **1**
(a) Short term (b) Medium term (c) Long term (d) Variable

Q.2 i. Define Financial Management. **2**
ii. Explain the objectives of Financial Management. What are the roles of a financial manager? **8**
OR iii. Calculate the following: **8**
(a) Find out the present value of Rs. 8,000 received after 4 years hence, if the discount rate is 10%.
(b) Rs. 5,000 invested at 8% compounded annually for 5 years. Calculate the compounded value after 5 years.

Q.3 i. Define Retained Earning with an example. **2**
ii. Explain the Cost of Capital in detail. What are its components? **8**
OR iii. Saya ltd issued 5,000, 10% preference shares of Rs. 100 each for 5 years; cost of issue came at Rs. 5 per share. Company tax rate is 30%. Find out cost of capital if shares are issued at: **8**
(a) At Par redeemable at 5 % premium
(b) At 8 % discount and redeemable at 10 % premium.

Q.4 i. Define Capital Structure in brief. **3**
ii. Explain Capital structure theories in detail. **7**

OR iii. The following figures are related to 2 companies. You are required to calculate Operating, Financial and Combined leverage and comment on your findings. **7**

Particulars	P. Ltd	A. Ltd
Sales	500	1,000
Variable cost	200	300
Contribution	300	700
Fixed Cost	150	400
EBIT	150	300
Interest	50	100
Profit before tax	100	200

Q.5 i. State the need and Importance of Capital Budgeting in detail. **4**
ii. Explain any two Techniques of Capital Budgeting in detail using imaginary figures. **6**
OR iii. The expected cash flows of a project are as follows: **6**

Year	**Cash flow**
0	1,00000
1	20,000
2	30,000
3	40,000
4	50,000
5	30,000

The cost of capital is 12%. Calculate the following
(a) Net present value
(b) Internal Rate of Return

Q.6 Attempt any two:
i. Define working capital in detail. Explain its Importance. **5**
ii. Write the methods for working capital estimation. **5**

Marking Scheme

CM3CO11 Fundamentals of Financial Management

Q.1	i.	The objective of wealth maximization takes into account (d) All of the above	**1**
	ii.	Finance Function comprises d) Procurement & effective use of funds	**1**
	iii.	If the Present Value of Cash Inflows are greater than the Present Value of Cash Outflows, the project would be (a) Accepted	**1**
	iv.	In weighted average cost of capital, a company can affect its capital cost through (d) All of above	**1**
	v.	Operating leverage= ……………. / EBIT d) Contribution	**1**
	vi.	Which is not a technique of Capital Structure analysis? (c) Capital budgeting	**1**
	vii.	In net present value method profit …………. Is used- (c) Before depreciation and after-tax	**1**
	viii.	If the net present value of a project is ………it will be accepted (a) Positive	**1**
	ix.	According to operating cycle concept working capital is (c) Operating capital	**1**
	x.	Nature of seasonal working capital is …………… (a) Short term	**1**
Q.2	i.	Definition- pointwise explanation - 2 marks	**2**
	ii.	Objectives explanation - 4 marks Roles of finance manager- 4 points of explanation - 4 marks	**8**
OR	iii.	Calculate the following: (a) Find out the present value of Rs. 8,000 received after 4 years hence, if the discount rate is 10%. (b) Rs. 5,000 invested at 8% compounded annually for 5 years. Calculate the compounded value after 5 years. Calculation of both- 4 marks each (4 * 2 = 8 Marks)	**8**
Q.3	i.	Definition and point wise explanation - 2 marks	**2**
	ii.	Explain the Cost of Capital in detail. What are its components?	**8**
OR	iii.	(a) At Par redeemable at 5 % premium (b) At 8 % discount and redeemable at 10 % premium. Calculation of both- 4 marks each (4 * 2 = 8 Marks)	**8**

Q.4	i.	Definition with pointwise explanation – 3 marks	**3**
	ii.	Explanation of theories in detail-	**7**
OR	iii.	Calculation of all 3 leverage- 2 marks each. (3 * 2 = 6 Marks) Comment- 1 mark	**7**
Q.5	i.	Point wise explanation of need and importance - 4 marks	**4**
	ii.	Explain any two Techniques of Capital Budgeting in detail using imaginary figures. (3 * 2 = 6 Marks)	**6**
OR	iii.	Calculate the following (a) Net present value (b) Internal Rate of Return Calculation of both- 3 marks for each (3 * 2 = 6 Marks)	**6**
Q.6		Attempt any two:	
	i.	Definition with explanation - 2 marks Importance 3 points with explanation - 3 marks	**5**
	ii.	All methods with explanation - 5 marks	**5**
	iii.	Stepwise marking- whole calculation - 5 marks	**5**

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