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- OR iii. While preparing a project report on behalf of a client, you have collected the following facts. Estimate the net working capital required for that project. Add 10% to your computed figure to allow for contingencies.

	Amount for the year
Estimated cost per unit of products:	(Rs)
Raw material	80
Direct labour	30
Overheads (exclusive of depreciation)	60
Total cost	170

Additional information:

Selling price 200 per unit

Level of activity Production of 104000 units PA

Raw material in stock:	Average 4 weeks
Work in progress(assume 50% Completion stage in respect of conversion costs)	Average 2 weeks
Finished goods in stock	Average 4 weeks
Credit allowed by suppliers	Average 4 weeks
Credit allowed to debtors	Average 8 weeks
Lag in payment of wages	Average 1.5 weeks
Cash at bank is expected to be	Rs 25000

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only

Total No. of Questions: 6

Total No. of Printed Pages:4

Enrolment No.....



Faculty of Management
End Sem (Even) Examination May-2018
MS3CO06 Financial Management

Programme: BBA

Branch/Specialisation: Management

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. Which of the following is an objective of financial management? **1**
 (a) Maximization of wealth of shareholders
 (b) Maximization of profits
 (c) Both (a) and (b)
 (d) None of these.
- ii. In how many years a sum of money will doubled at rate of 8% _____ **1**
 (a) 7 years (b) 8 years (c) 9 years (d) 7.2 years
- iii. Cost of Retained Earnings is equal to _____ **1**
 (a) Cost of Equity (b) Cost of Debt
 (c) Cost of Preference Share (d) None of these
- iv. K_o denotes _____ **1**
 (a) Cost of Equity (b) Cost of Debt
 (c) Cost of Preference Share (d) WACC
- v. Operating leverage measures _____ **1**
 (a) Business Risk (b) Financial Risk
 (c) Both (a) and (b) (d) None of these
- vi. The term "capital structure" refers to: **1**
 (a) Long-term debt, preferred stock, and common stock equity.
 (b) Current assets and current liabilities.
 (c) Shareholders' equity.
 (d) None of these

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- vii. Capital Budgeting is a part of: **1**
 (a) Investment Decision (b) Working Capital Management
 (c) Capital Structure (d) Marketing Decision
- viii. Savings in respect of a cost is treated in capital budgeting as: **1**
 (a) An Outflow (b) An Inflow
 (c) Both (a) and (b) (d) None of these
- ix. Working capital management is managing: **1**
 (a) Short Term Assets and Liabilities (b) Long Term Assets
 (c) Long Terms Liabilities (d) Only Short Term Assets
- x. Net working capital refers to: **1**
 (a) Total assets minus fixed assets.
 (b) Current assets minus current liabilities.
 (c) Current assets minus inventories.
 (d) None of these
- Q.2 i. Define Financial Management. **2**
 ii. What are the roles of Finance Managers? **3**
 iii. (a) Find out the future value of Rs.2,000 compounded annually for 10 years at interest of 10% per annum. **5**
 (b) If you deposit an amount of Rs.10,000 at 8% rate of interest, in how many years will this amount double?
- OR iv. Describe the objectives and importance of Financial Management. **5**
- Q.3 i. What do you understand by Cost of Capital? **2**
 ii. Explain the significance and components of cost of capital. **8**
- OR iii. ABC Ltd has the following capital structure: **8**
 Equity capital (Expected dividend 15%) Rs. 10,00,000
 10% Preference share capital Rs. 5,00,000
 9% Loan Rs. 15,00,000
 Calculate WACC. (Assume tax rate 60%)
- Q.4 i. Describe briefly any four factors that affecting the capital structure of an enterprise. **4**
 ii. What is mean by the Leverage and also the types of leverages? **6**

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- OR iii. The following figures relate to two companies: **6**

	X Ltd	Y Ltd
Sales	20,00,000	10,00,000
Fixed cost	2,00,000	1,00,000
Variable cost	14,00,000	6,00,000
Interest	1,00,000	1,50,000

You are required to calculate Degree of operating, financial and combined leverage.

- Q.5 i. Write the importance of capital budgeting? **3**
 ii. The management of company has two alternative projects under consideration. Project A requires a capital of Rs. 3,00,000 but project B needs Rs.4,20,000. Both are estimated to provide a cash flows for six years: A Rs.80,000 per year and B Rs.1,10,000 per year. The cost of capital is 10%. Show which project is preferable from the view point of: (a) NPV (b) IRR **7**
- OR iii. A company has an investment opportunity costing Rs.40,000 with the following expected net cash flows after taxes and before depreciation: **7**

Year	Net cash inflows	Year	Net cash inflows
1	7,000	6	8,000
2	7,000	7	10,000
3	7,000	8	15,000
4	7,000	9	10,000
5	7,000	10	4,000

Using 10% as the cost of capital determine the following:

- (a) Payback period (b) NPV (c) PI
- Q.6 i. Write the meaning and importance of working capital. **4**
 ii. Explain the factors affecting the working capital requirements of a company. **6**

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Marking Scheme
MS3CO06 Financial Management

Q.1	i.	(c) Both (a) and (c)		1
	ii.	(c) 9 years		1
	iii.	(a) Cost of Equity		1
	iv.	(d) WACC		1
	v.	(a) Business Risk		1
	vi.	(a) Long-term debt, preferred stock, and common stock equity.		1
	vii.	(a) Investment Decision		1
	viii.	(b) An Inflow		1
	ix.	(a) Short Term Assets and Liabilities		1
	x.	(b) Current assets minus current liabilities.		1
Q.2	i.	Definition of Financial Management		2
	ii.	Any three roles of Finance Mangers	(1 mark * 3)	3
	iii.	2.5 marks for each question	(2.5 marks *2)	5
OR	iv.	Objectives	2 marks	5
		Importance of Financial Management	3 marks	
Q.3	i.	Meaning of Cost of Capital		2
	ii.	Significance	4 marks	8
		Components of cost of capital	4 marks	
OR	iii.	Full marks for correct answer stepping marking will be depend on evaluator discretion.		8
Q.4	i.	One mark for each factors (Any four)	(1 mark * 4)	4
	ii.	Meaning	2 marks	6
		Types of leverages	4 marks	
OR	iii.	X Ltd	3 marks	6
		Y Ltd	3 marks	
		(Each correct answer carries 1 marks)		
Q.5	i.	1 marks for each importance	(1 mark * 3)	3
	ii.	NPV	3 marks	7
		IRR	4 marks	

OR	iii.	Payback period	2 marks	7
		NPV	4 marks	
		PI	1 mark	

Q.6		Attempt any two:		
	i.	Meaning	2 marks	5
		Importance of working capital	3 marks	
	ii.	5 marks for 5 factors explained 1 mark each	(1 mark *5)	5
OR	iii.	5 marks for net working capital		5
