

Q.6

Attempt any two:

- i. What is working capital and also explain the factors affecting working capital? **5**
- ii. From the following data, calculate the current working capital cycle for XYZ Ltd. **5**

Sales	Rs.3000
Cost of Production	Rs. 2100
Purchases	Rs. 600
Average Raw Material Stock	Rs. 80
Average Work-in-progress	Rs. 85
Average finished goods stock	Rs. 180
Average creditors	Rs. 90
Average debtors	Rs. 350

- iii. Prepare an estimate of networking capital requirement of Bajaj Company from the data given below: **5**

Estimated cost per unit of production	Amount per unit (Rs)
Raw materials	100
Direct Labour	40
Overheads	80

Following is the additional information:

Selling price per unit	Rs. 240
Level of activity	1,04,000 units per annum
Raw materials in stock	4 weeks
Work-in-progress(Assume 100% stage of completion of materials and 50% for labour and overhead)	2 weeks
Finished goods in stock	4 weeks
Credit allowed by suppliers	4 weeks
Credit allowed to debtors	8 weeks
Lag in payment of wages	1.5 weeks

Cash at Bank is expected to be Rs.25000. Assume that production is sustained during 52 weeks of the year.

Total No. of Questions: 6

Total No. of Printed Pages:4

Enrollment No.....



Faculty of Commerce

End Sem Examination May-2024

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. Assume suitable data if necessary. Notations and symbols have their usual meaning.

- Q.1 i. Business finance is needed to: **1**
 (a) Establish a business (b) Run of business
 (c) Expand a business (d) All of these
- ii. The cheapest source of finance is- **1**
 (a) Debenture (b) Equity share capital
 (c) Preference share capital (d) Retained earning
- iii. Under which of the following situation a company is not likely to issue equity: **1**
 (a) When the debt service coverage ratio is high
 (b) When the interest coverage ratio is high
 (b) When the cost of debt capital is low
 (d) All of these
- iv. The cost of equity share or debt is known as: **1**
 (a) The specific cost of capital
 (b) The related cost of capital
 (c) The burden on the shareholder
 (d) None of these
- v. Higher financial leverage ratio indicates that: **1**
 (a) The dependency of the firm on the debt is more
 (b) The dependency of the firm on the debt is less
 (c) The proportion of equity in the total capital is high
 (d) None of these
- vi. Which of these is not a part of capital structure: **1**
 (a) Equity shares (b) Debentures
 (c) Short term borrowings (d) Bonds

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- vii. Which of the following is not incorporated within the capital budgeting decision for a company? **1**
 (a) The rate of cash discount
 (b) Time value of money
 (c) The required rate of return
 (d) None of these
- viii. Capital budgeting decisions are evaluated using the: **1**
 (a) Weighted average (b) Component cost
 (c) Unweighted average (d) None of these
- ix. The working capital requirement of a business is not likely to be high when- **1**
 (a) The nature of business is trading
 (b) Scale of operation of a business is small
 (c) It is difficult to procure raw material
 (d) The rate of inflation is low
- x. A high capital gearing ratio indicates : **1**
 (a) Over capitalisation (b) Borrowed capital
 (c) Long term funds (d) Under capitalisation
- Q.2 i. Assume that a deposit is to be made at year zero into an account that will earn 8% compounded annually. It is desired to withdraw Rs. 5000 three years from now. What is the size of the year zero deposit that will produce these future payments. **4**
- ii. Explain the meaning of Financial Management and role of finance manager **6**
- OR iii. What is the minimum amount which a person should be ready to accept today from a debtor who otherwise has to pay a sum of Rs. 5000 today Rs. 6000, Rs. 8000, Rs.9000 and Rs. 10000 at the end of the years 1,2,3,4 respectively from today. The rate of interest may be taken at 14%. **6**
- Q.3 i. Write the significance of cost of capital. **4**
- ii. A company issue 10-year debentures for Rs 1,00,000 with 5% coupon. The flotation cost is Rs 2000 and the tax rate is 30%. Calculate the cost of debt? **6**
- OR iii. Describe the meaning and components of cost of capital. **6**

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- Q.4 i. ABC Ltd. has sales of Rs. 80000, Variable Cost Rs. 20000 and Fixed Cost of Rs. 20000. Calculate Contribution and EBIT. **3**
- ii. What are the factors affecting capital structure and determination of optimum capital structure? **7**
- OR iii. Calculate the degree of operating leverage (DOL), degree of financial leverage (DFL) and degree of combine leverage (DCL) from the following: **7**

Particulars	Firm A	Firm B	Firm C
Output (Units)	60000	15000	100000
Fixed Cost	7000	14000	1500
Variable Cost per unit	0.20	1.50	0.02
Interest on borrowed funds	4000	8000	-
Selling price per unit	0.60	5.00	0.10

- Q.5 i. ABC company has an investment opportunity costing Rs. 100000 with the following expected cash inflow (i.e., after tax and before depreciation): **4**

Years	Inflows
1	17000
2	17000
3	17000
4	17000
5	17000
6	18000
7	10000
8	15000
9	10000
10	14000

- Using 10 % as the cost of capital (rate of discount) determine the (a) present value factor (b) net present value (c) profitability index
- ii. Describe the need for and importance of capital budgeting. **6**
- OR iii. A project costing Rs. 40000. Its stream of earning before depreciation and tax during first year through five years is expected to be Rs. 10000, Rs.12000, Rs.14000, Rs. 16000 and Rs. 20000. Assume a 50% tax rate and depreciation on straight line basis. Calculate ARR. **6**

Marking Scheme

Fundamentals of Financial Management (T) - CM3CO11 (T)

Q.1	i)	d)all of these	1
	ii)	d)Retained earning	1
	iii)	d) All of the above	1
	iv)	a)the specific cost of capital	1
	v)	a)the dependency of the firm on the debt is more	1
	vi)	c)short term borrowings	1
	vii)	(a)the rate of cash discount	1
	viii)	a)weighted average	1
	ix)	c)It is difficult to procure raw material	1
	x)	b)borrowed capital	1
Q.2	i.	Rs.3970	4
	ii.	As per the answer	6
OR	iii.	Rs. 28409	6
Q.3	i.	Each Significances carry 1 Marks	4
	ii.	Before For=0.05202	6
		After For= 0.0364	
OR	iii.	Meaning =2 Marks	6
		Conformists =4 Marks	
Q.4	i.	Contribution Rs. 60000	3
		EBIT Rs. 40000	
	ii.	As per the answer	7
OR	iii.	DOL Firm A=1.41, B= 1.36, C= 1.23	7
		DFL Firm A=1.31, B=1.26, C= 1.00	
		DCL Firm A= 1.85, B=1.72, C= 1.23	
Q.5	i.	PV Rs. 96361, NPV Rs. 3639, PI .936	4

	ii.	As per the answer.	6
OR	iii.	ARR 16%	6
Q.6			
	i.	As per the answer.	5
	ii.	83 Days	5
	iii.	Net Working Capital Rs. 58,25,000	5
