Q.5 i. What is Capital Budgeting? Explain its Importance. **4**

ii. Explain the traditional methods of Capital Budgeting. **6**

OR iii. A project needs a capital outlay of Rs 1,38,500. The cost of capital is 12%. The net cash outflows are as under: **6**

Year	**Rs**
1	30,000
2	40,000
3	60,000
4	30,000
5	20,000

You are required to calculate NPV and IRR. Suggest whether the project should be accepted or not?

Q.6 Attempt any two:

i. Define Working Capital? What are those factors that affect a company's working capital requirement? **5**

ii. Explain the types of Working Capital in brief. **5**

iii. Create a proforma for computation of Working Capital Requirement using Imaginary figures. **5**

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

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

Faculty of Management Studies

End Sem (Even) Examination May-2019

MS3CO06 Financial Management

Programme: BBA Branch/Specialisation: Management / DM

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 financial management are ___________ **1**

(a) Profit Maximization (b) Wealth maximization

(c) Both (a) and (b) (d) None of these

ii. Time value of money indicates that **1**

(a) A unit of money obtained today is worth more than a unit of money obtained in future

(b) A unit of money obtained today is worth less than a unit of money obtained in future.

(c) There is no difference in the value of money obtained today and tomorrow.

(d) None of these

iii. Explicit cost is— **1**

(a) Cost of use of funds

(b) Opportunity cost of capital funds

(c) Cost of acquisition of funds

(d) All of these

iv. Determination of cost of capital means to find out the cost of ___________ **1**

(a) Debentures (b) Preference Shares

(c) Equity Capital (d) All of these

v. The discount rate used to determine the present value of a stream of expected future cash flows is referred to as the __________. **1**
(a) Net operating income
(b) Capitalization rate
(c) Capital structure
(d) Yield on the company's market value of common equity

vi. The traditional approach towards the valuation of a company assumes that __________. **1**
(a) The cost of capital is independent of the capital structure of the firm.
(b) The firm maintains constant risk regardless of the type of financing employed.
(c) There exists no optimal capital structure.
(d) That management can increase the total value of the firm through the judicious use of financial leverage.

vii. Following is (are) the method(s) for adjustment of risks **1**
(a) Risk-adjusted Discounting Rate
(b) Risk Equivalence Coefficient Method
(c) Both (a) and (b)
(d) None of these

viii. A project may be regarded as high-risk project when **1**
(a) It has smaller variance of outcome but a high initial investment
(b) It has larger variance of outcome and high initial investment
(c) It has smaller variance of outcome and a low initial investment
(d) It has larger variance of outcome and low initial investment

ix. Which of the following is a basic principle of finance as it relates to the management of working capital? **1**
(a) Profitability varies inversely with risk.
(b) Liquidity moves together with risk.
(c) Profitability moves together with risk.
(d) None of these

x. To financial analysts, "working capital" means the same thing as ________. **1**
(a) Total assets (b) Fixed assets
(c) Current Assets (d) None of these

Q.2 i. Explain the concept of Doubling Period. **2**
ii. What do you understand by Time value of money? Explain the concept of Present value using an example. **3**
iii. What is Financial Management? What are the objectives of financial management? Explain. **5**
OR iv. Calculate the following: **5**
(a) Mr. A is likely to receive 50,000 Rs. after 4 years, If the rate of Interest is 10% pa. Calculate Present value of money.
(b) Radha is required to pay 3 equal instalments of Rs. 10,000 each in his deposit Account that pays 10% interest yearly. Find out future value of Annuity at the end of 3 years.

Q.3 i. What do you mean by term Retained Earning? **2**
ii. What is Cost of Capital, why we calculate cost of capital? Explain its different components in brief. **8**
OR iii. Rohit Ltd. Issued 4,000, 10% preference shares of Rs 100 each for 5 years. Cost of issue came at Rs 2 per share. The company tax rate is 30% Find out post Tax cost of Preference share if shares are issued – **8**
(a) At par and redeemable at 5% premium.
(b) At 5% discount and redeemable at 5% premium.

Q.4 i. State the factors that affect a firm’s Capital Structure decisions. **3**
ii. Critically explain the Theories of Capital Structure given by ‘Durand’ using illustration. **7**
OR iii. The capital structure of Saniya Ltd. Consists of equity share capital of Rs. 10,00000 and 10,00000 20% debentures. **7**
Other particulars are as follows:
(a) Sales 2,00000 and 2,50000 units
(b) Selling price Rs 10 per unit
(c) Variable cost Rs 5 per unit
(d) Fixed cost Rs 400000
(e) Rate of tax 50%
Calculate Operating as well as Financial Leverage at 2,00000 and 2,50000 units.

Marking Scheme
MS3CO06 Financial Management

Q.1	i.	The objective of financial management are ___________		1
		(c) Both (a) and (b)		
	ii.	Time value of money indicates that		1
		(a) A unit of money obtained today is worth more than a unit of money obtained in future		
	iii.	Explicit cost is—		1
		(c) Cost of acquisition of funds		
	iv.	Determination of cost of capital means to find out the cost of _______		1
		(d) All of these		
	v.	The discount rate used to determine the present value of a stream of expected future cash flows is referred to as the __________.		1
		(b) Capitalization rate		
	vi.	The traditional approach towards the valuation of a company assumes that __________.		1
		(d) That management can increase the total value of the firm through the judicious use of financial leverage.		
	vii.	Following is (are) the method(s) for adjustment of risks		1
		(c) Both (a) and (b)		
	viii.	A project may be regarded as high-risk project when		1
		(a) It has smaller variance of outcome but a high initial investment		
	ix.	Which of the following is a basic principle of finance as it relates to the management of working capital?		1
		(c) Profitability moves together with risk.		
	x.	To financial analysts, "working capital" means the same thing as ________.		1
		(c) Current Assets		
Q.2	i.	Concept of Doubling Period.		2
		Two concept 1 mark for each	(1 mark * 2)	
	ii.	Time value of money	1 mark	3
		Concept of Present value with example	2 marks	
	iii.	Financial Management	2 marks	5
		Objectives of financial management	3 marks	
OR	iv.	Calculate the following:		5
		(a) Calculate Present value of money.	2.5 marks	
		(b) Find out future value of Annuity at the end of 3 years	2.5 marks	
Q.3	i.	Retained Earning with example		2
	ii.	Meaning of Cost of Capital	2 marks	8
		Importance	2 marks	
		Components	4 marks	
OR	iii.	(a) At par and redeemable at 5% premium.	4 marks	8
		(b) At 5% discount and redeemable at 5% premium.	4 marks	
Q.4	i.	Factors that affect a firm's Capital Structure decisions.		3
		Pointwise explanation	3 marks	
	ii.	Two Theories of Capital Structure given by 'Durand' using illustration.		7
		3.5 marks for each	(3.5 marks * 2)	
OR	iii.	Calculate Operating Leverage	3.5 marks	7
		Calculate Financial Leverage	3.5 marks	
Q.5	i.	Meaning of Capital Budgeting	2 marks	4
		Its Importance	2 marks	
	ii.	Two traditional methods of Capital Budgeting.		6
		3 marks for each method	(3 marks * 2)	
OR	iii.	Calculate NPV	3 marks	6
		Calculate IRR	3 marks	
Q.6		Attempt any two:		
	i.	Meaning of Working Capital	2 marks	5
		Factors that affect a company's working capital requirement	3 marks	
	ii.	Types of Working Capital		5
		Pointwise explanation		
	iii.	Create a proforma for computation of Working Capital Requirement using Imaginary figures.		5
		Whole proforma		

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