

- OR iii. From the following information you are required to estimate the net working capital: 8

Particulars	Cost Per Unit (Rs.)
Raw Material	400
Direct Labour	150
Overheads	300
Total Cost	850
Additional Information	
Selling Price	Rs. 1000/unit
Output	52,000 units /year
Raw Material in Stock	Average 4 weeks
Work in Progress (Assume 50% completion stage with full material consumption)	Average 2 weeks
Finished Goods in Stock	Average 4 weeks
Credit allowed to debtors	Average 8 weeks
Credit allowed by Suppliers	Average 4 weeks
Cash at Bank	Rs. 50,000

Assume the production is carried out evenly throughout the 52 weeks of the year. All sales are on credit basis.



Enrollment No.....

Faculty of Management Studies
End Sem (Even) Examination May-2022
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. The only feasible purpose of financial management is- **1**
 (a) Wealth maximization (b) Sales maximization
 (c) Profit maximization (d) Assets maximization
- 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. Interest rate is 12% and tax savings (1-0.40) then after-tax component cost of debt will be- **1**
 (a) 7.2% (b) 7.2 times (c) 17.14 times (d) 17.14%
- iv. Dividend per share is Rs. 18 and sell it for Rs. 122 and floatation cost is Rs. 4 then cost of equity share will be- **1**
 (a) 15.25% (b) 15.25 times (c) 1.525 times (d) 1.525%
- v. Operating leverage = _____. **1**
 (a) Contribution * Earnings before interest and tax
 (b) Contribution / Earnings before interest and tax
 (c) Earnings before interest and tax / Contribution
 (d) Earnings before interest and tax + Contribution
- vi. The ratio which measures the profits available to the equity shareholders on a per basis is termed as- **1**
 (a) Profitability index (b) Earnings per share
 (c) Debt equity ratio (d) None of these
- vii. The span of time within which the investment made for the project will be recovered by the net returns of the project is known as- **1**
 (a) Period of return (b) Payback period
 (c) Span of return (d) None of these

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- viii. A project is accepted when- **1**
 (a) Net present value is greater than zero
 (b) Internal rate of return will be greater than cost of capital
 (c) Profitability index will be greater than unity
 (d) All of these
- ix. What are the aspects of working capital management? **1**
 (a) Inventory management (b) Receivable management
 (c) Cash management (d) All of these
- x. _____ is the length of time between the firm's actual cash expenditure and its own cash receipt. **1**
 (a) Net operating cycle (b) Cash conversion cycle
 (c) Working capital cycle (d) Gross operating cycle
- Q.2 i. Define Financial Management. Explain its importance for organization. **4**
 ii. The two objectives of financial management viz. profit maximization and wealth maximization, which one you think, is more in the interest of firm? Give reason for your answer. **6**
- OR iii. Calculate the Future value of Rs. 50,000 at the end of 3 years at 8% rate of interest, when interest is compounded: **6**
 (a) Half Yearly (b) Quarterly
- Q.3 i. Explain the concept of cost of capital. **2**
 ii. Explain in detail the various components of cost of capital. **8**
- OR iii. ABC Ltd. has the following capital structure as on 31st December: **8**
 (a) Equity share Capital Rs. 5,00,000.
 (b) 9% Preference Share Capital Rs. 2,00,000.
 (c) 10% Debentures Rs. 3,00,000.
 The equity shares of the company are quoted at Rs. 102 and the Co. is expected to declare a dividend of Rs. 9 per share for the next year. The Co. has registered a dividend growth rate of 5%. Applicable tax rate is 50%. Calculate weighted average cost of capital.
- Q.4 i. What do you understand by the term "Leverage"? **3**
 ii. What is capital structure? Explain in detail the various factors affecting the capital structure of a company. **7**

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- OR iii. A company wishes to raise a total capital of Rs. 2,00,000. It has two plans: **7**
 (a) Plan A-No debt, all equity shares
 (b) Plan B – 50% from debentures,30% from preference Shares and 20% from equity shares
 The face value of equity shares is Rs. 10. The debenture rate of interest is 10%, while preference share dividend rate is 12%. The EBIT to be Rs. 50000.The tax rate applicable is 50%.Calculate which plan would be profitable?

- Q.5 i. What do you mean by Capital Budgeting? **2**
 ii. Determine the average rate of return from the following data of two machines A and B. **8**

Particulars	Machine A	Machine B
Original Cost	Rs. 56,125	Rs. 56,125
Investment in net working capital	Rs. 5,000	Rs. 6,000
Estimated Life in years	5 Years	5 Years
Estimated Salvage Value	Rs. 3,000	Rs. 3,000
Annual Estimated Income after Depreciation and Tax:		
1 st Year	Rs. 3,375	Rs. 11,375
2 nd Year	Rs. 5,375	Rs. 9,375
3 rd Year	Rs. 7,375	Rs. 7,375
4 th Year	Rs. 9,375	Rs. 5,375
5 th Year	Rs. 11,375	Rs. 3,375
Total	Rs. 36,875	Rs. 36,875

- OR iii. Explain any four techniques of Capital budgeting with suitable example? **8**
- Q.6 i. What do you mean by Working Capital? **2**
 ii. Discuss the various factors affecting the working capital requirement of any business? **8**

P.T.O.

Marking Scheme
MS3CO06 Financial Management

Q.1	i.	The only feasible purpose of financial management is-	1
		(a) Wealth maximization	
	ii.	Finance function comprises-	1
		(d) Procurement & effective use of funds	
	iii.	Interest rate is 12% and tax savings (1-0.40) then after-tax component cost of debt will be-	1
		(a) 7.2%	
	iv.	Dividend per share is Rs. 18 and sell it for Rs. 122 and floatation cost is Rs. 4 then cost of equity share will be-	1
		(a) 15.25%	
	v.	Operating leverage = ____.	1
		(b) Contribution / Earnings before interest and tax	
	vi.	The ratio which measures the profits available to the equity shareholders on a per basis is termed as-	1
		(b) Earnings per share	
	vii.	The span of time within which the investment made for the project will be recovered by the net returns of the project is known as-	1
		(b) Payback period	
	viii.	A project is accepted when-	1
		(d) All of these	
	ix.	What are the aspects of working capital management?	1
		(d) All of these	
	x.	_____ is the length of time between the firm's actual cash expenditure and its own cash receipt.	1
		(a) Net operating cycle	
Q.2	i.	Define Financial Management. Explain its importance for organization.	4
		As per explanation	
	ii.	Give reason for your answer.	6
		As per explanation	
OR	iii.	Stepwise marking	6
Q.3	i.	Concept of cost of capital.	2
		As per explanation	
	ii.	Components of cost of capital.	8
		As per explanation	

OR	iii.	Stepwise marking	8
Q.4	i.	“Leverage”	3
		As per explanation	
	ii.	Capital structure and factors affecting the capital structure	7
		As per explanation	
OR	iii.	Calculate which plan would be profitable	7
		As per explanation	
Q.5	i.	Capital Budgeting	2
		As per explanation	
	ii.	Determine the average rate of return from the following data of two machines A and B.	8
		Stepwise marking	
OR	iii.	Any four techniques of Capital budgeting with suitable example	8
Q.6	i.	Working Capital	2
		As per explanation	
	ii.	Factors affecting the working capital requirement of any business	8
		As per explanation	
	iii.	Stepwise marking	

Q3 iii) Calculation of Cost of Equity :-

$$k_e = \frac{D_1}{P_0} + g = \frac{9}{102} + 0.05$$
$$= 13.80\%$$

$$K_d = K_i (1-t)$$
$$= 0.10 (1-0.5) = 5\%$$

Calculate of WACC

Source	Amount	Weight	Cost	Weighted Cost
Equity	500000	5/10	13.8	6.9
Preference Shares	200000	2/10	9	1.8
Debentures	300000	3/10	5	1.5
WACC				10.2 %

$$2(ciii) \quad FV = PV \left(1 + \frac{r}{m \times 100}\right)^{n \times m}$$

$$\text{Half Yearly} = 50000 \left(\frac{1.04}{1}\right)^{3 \times 2}$$

$$= 614230 \text{ Rs. } 63265 \text{ Rs. Approx}$$

$$\text{Quarterly} = 50000 \left(\frac{1.02}{1}\right)^{3 \times 4}$$

$$= 63412 \text{ Rs. Approx}$$

This Scheme is Verified, and numerical problem's solutions provided.

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$$Q. 5(ii) \text{ ARR} = \frac{\text{Average Profit After Tax}}{\text{Average Investment}} \times 100$$

$$\text{Avg. PAT} = \frac{\text{Total PAT}}{\text{No. of years}}$$

$$\text{Machine (A)} = \frac{36875}{5} = 7375$$

$$(B) = \frac{36875}{5} = 7375$$

$$\text{Avg. Investment} = \left(\frac{\text{Original Investment} - \text{Scrap Value}}{2} \right) + \text{Working Capital} + \text{Scrap Value}$$

$$\text{Machine (A)} = \left(\frac{56125 - 3000}{2} \right) + 5000 + 3000$$

$$\Rightarrow \text{Rs } 34562$$

$$\text{Machine (B)} = \left(\frac{56125 - 3000}{2} \right) + 6000 + 3000$$

$$\Rightarrow \text{Rs } 35562$$

$$\text{ARR (A)} = 7375 / 34562 = 21.34\%$$

$$\text{ARR (B)} = 7375 / 35562 = 20.74\%$$

Q. 4, iii)

Financial Plans (£)

	A	B	Not given
EBIT	50000	50000	50000
Less:- Interest	-	10000	16000
EBP	50000	40000	34000
Less:- Tax (50%)	25000	20000	17000
EAT	25000	20000	17000
Less:- Preference Share Dividend (@ 12%)	-	7200	
Profit Available for Equity Shareholders.	25000	12800	17000
(no. of Equity Shares)	20000	4000	4000
Earning per Shares	1.25	3.20	

Q. 6 (iii) Statement Showing net Working Capital Requirements

Current Assets:-		
Stock of Raw Material (4 weeks) $52000 \times 400 \times \frac{4}{52}$	1600000	
Stock of work in progress (2 weeks) $52000 \times 400 \times \frac{2}{52}$	800000	
Raw Material - 50% Completion $52000 \times 150 \times \frac{2}{52}$	150000	
Overheads - 50% Completion $52000 \times 300 \times \frac{2}{52} \times \frac{50}{100}$	300000	
Stock of finished goods (4 weeks) $52000 \times 850 \times \frac{4}{52}$	3400000	
Amount Blocked in Debtors $52000 \times 850 \times \frac{8}{52}$	6800000	
Cash at Bank	50000	
Total Current Assets	13100000	
Less: Current Liabilities		
Creditors for raw materials $52000 \times 400 \times \frac{4}{52}$	1600000	
Net Working Capital Required		11500000