ii. What are the factors affecting working capital requirements? Explain at least five factors in detail. **5**

iii. Prepare an estimate of working capital requirement from the following information of a trading concern: **5**

Project Annual Sales- 1,00,000 units
Selling Price – Rs 8 per unit
Percentage of net profit on sales - 25%
Average credit period allowed to customers – 8 weeks
Average credit period allowed to suppliers – 4 weeks
Average stock holding in terms of sales requirements – 12 weeks
Allow 10% for contingencies.

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

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

Faculty of Management Studies
End Sem Examination May-2024
MS3CO30 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. Assume suitable data if necessary. Notations and symbols have their usual meaning.

Q.1 i. Financial management is mainly concerned with- **1**
(a) Arrangement of funds
(b) All aspects of acquiring a utilizing financial resource for forms activities
(c) Efficient management of every business
(d) None of these above

ii. The job of finance manager is confined to- **1**
(a) Raising of funds
(b) Management of cash
(c) Raising of funds and their effective utilization
(d) All of these

iii. While evaluating capital investment proposals the time value of money is considered in case of- **1**
(a) Payback period
(b) Discounted cash flow method
(c) Accounting rate of return method
(d) All of these

iv. IRR is- **1**
(a) International Rate of Return
(b) Internal Rate of Return
(c) Instant Return Rate
(d) All of these

v. Which one is not correct? **1**
(a) Kd = I/NP (1-t) (b) Kp = D/NP
(c) Ke = D/MP (d) Kr={I/NP + G} x (1-t) x (1-b)

vi. Cost of capital is the ________ rate of return expected by its investors. **1**
(a) Minimum (b) Maximum
(c) Average (d) Opportunity

vii. Operating profit is- **1**
(a) EBIT (b) EBT
(c) EPS (d) EAT

viii. Which one is not correct- **1**
(a) C = S-VC (b) OL = C/EBIT
(c) FL = EBIT/EBT (d) CL = EBT/C

ix. Which one is correct about working capital? **1**
(a) WC = Total Assets – Total Liabilities
(b) WC = Total Liabilities - Total Assets
(c) WC = Current Assets – Current Liabilities
(d) WC = Total Liabilities – Current Assets

x. Gross working capital is- **1**
(a) WC=CA (b) WC=CA-CL
(c) WC=CL (d) None of these

Q.2 i. Discuss the concept of time vale of money. **2**

ii. Explain functions of financial manager in achieving organizational goals. **3**

iii. Calculate present value of the following cash flow assuming a discount rate of 10%. **5**

Year	Cash Flow
1	Rs. 5,000
2	10,000
3	10,000
4	3,000
5	2,000

OR iv. Explain the relationship between finance and other disciplines. **5**

Q.3 i. Explain need and importance of capital budgeting. **3**

ii. What is the IRR method? what are the advantages and disadvantages of this method. Also differentiate between NPV and IRR. **7**

OR iii. From the following information calculates the Net Present Value of the two projects and suggests which of the two projects should be accepted assuming a discount rate of 10%. **7**

	Project X	**Project Y**
Initial Investment	Rs. 20,000	Rs. 30,000
Estimated Life	5 Years	5 Years
Scrap Value	Rs. 1,000/-	Rs. 2,000

The profit before depreciation and after tax

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Project X	5,000	10,000	10,000	3,000	2,000
Project Y	20,000	10,000	5,000	3,000	2,000

Q.4 i. Explain cost of capital and its components. **3**

ii. A company issues Rs. 10,00,000 10% redeemable debentures at a discount of 5%. The cost of floatation amount Rs 30,000. The debentures are redeemable after 5 years. Calculate before tax and after-tax cost of debt assuming a tax rate of 50%. **7**

OR iii. Explain the concept of weighted average cost of capital in detail. **7**

Q.5 i. What do you mean by 'EBIT and EBT' analysis? Explain its uses in business. **4**

ii. Balance sheet of Radhika Limited as on 31.3.2023 is as follows: **6**

Liabilities	Rs.	Assets	Rs.
Equity capital (Rs 10 Per share)	60,000	Net Fixed Assets	1,50,000
10% Debentures Retained earnings Current Liabilities	80,000 20,000 40,000	Current assets	50,000
Total	**2,00,000**		**2,00,000**

The company's total assets turnover ratio is 3. Its fixed operating cost are Rs 1,00,000 and its variable operating cost ratio is 40%, the income tax rate is 50%, calculate all three types of leverages.

OR iii. A firm has sales of Rs. 20,00,000, variable cost of Rs.14,00,000 and fixed cost of Rs.4,00,000 and debt of Rs. 10,00,000 at 10% rate of interest. What are the operating, financial and combined leverages? Note: Give your comments on relative risk position on each type of leverage. **6**

Q.6 Attempt any two:

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15/II

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

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Knowledge Is Power

Faculty of Management Studies
End Sem Examination May-2024
MS3CO30 Financial Management

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Retained earnings	20,000		
Current Liabilities	40,000		
Total	**2,00,000**		**2,00,000**

The company's total assets turnover ratio is 3. Its fixed operating cost are Rs 1,00,000 and its variable operating cost ratio is 40%, the income tax rate is 50%, calculate all three types of leverages.

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Q.2 iii)

Year	Cash flow	DF	DCF
1	5000	.909	4545
2	10000	.826	8260
3	10000	.751	7510
4	3000	.683	~~2046~~ 2049
5	2000	.621	1242
			~~23602~~ Ans.
			23606

BBA FM Q 5 (iii)

Statement of Profit

	₹
Sales	20,00,000
Less : Variable cost	14,00,000
Contribution	6,00,000
Less : Fixed cost	4,00,000
Operating Profit (EBIT)	2,00,000
Less : Interest at 10% on ₹ 10,00,000	1,00,000
Profit Before Tax (PBT)	1,00,000

Calculation of Leverages

(*a*) Operating Leverage $= \dfrac{\text{Contribution}}{\text{Operating Profit (EBIT)}}$

Or, O.L. $= \dfrac{6,00,000}{2,00,000} = 3.$

(*b*) Financial Leverage $= \dfrac{\text{Earings Before Interest and Tax}}{\text{Profit Before Tax}}$

Or, F.L. $= \dfrac{2,00,000}{1,00,000} = 2$

(*c*) Combined Leverage = Operating Leverage × Financial Leverage Or, C.L.$= 3 \times 2 = 6$

BBA FM Q6. (iii)

STATEMENT OF WORKING CAPITAL REQUIREMENTS

	Rs.
Current Assets :	
Debtors (8 weeks) : $\frac{6,00,000 \times 8}{52}$ (At Cost)	92,308
Stock (12 weeks) : $\frac{6,00,000 \times 12}{52}$	1,38,462
	2,30,770
Less : Current Liabilities :	
Creditors (4 weeks) : $\frac{6,00,000 \times 4}{52}$	46,154
Net Working Capital	1,84,616
Add : 10% for contingencies	18,462
Working Capital Required	2,03,078

Working Notes :

(a) Sales = 1,00,000 × 8 = Rs. 8,00,000

Profit = 25% of Rs. 8,00,000 = Rs. 2,00,000

Cost of Sales = Rs. 6,00,000

(b) As it is a trading concern, cost of sales is assumed to be the purchases.

(c) Profits have been ignored as funds provided by profits may or may not be used as working capital.

BBA FM Q5 (ii)

$$\text{Total Assets Turnover Ratio} = \frac{\text{Sales}}{\text{Total Assets}}$$

$$3 = \frac{\text{Sales}}{2,00,000}$$

$$\text{Sales} = \text{Rs. } 6,00,000.$$

As such, profitability structure is as below.

Sales	Rs. 6,00,000
(–) Variable Cost (40%)	Rs. 2,40,000
Contribution	Rs. 3,60,000
(–) Fixed Cost	Rs. 1,00,000
EBIT	Rs. 2,60,000
(–) Interest	Rs. 8,000
EBT	Rs. 2,52,000
(–) Taxes	Rs. 1,26,000
Profit After Tax	Rs. 1,26,000

Calculation of Leverages :

(a) Operating Leverage :

$$\frac{\text{Contribution}}{\text{EBIT}} = \frac{3,60,000}{2,60,000} = 1.38$$

(b) Financial Leverage :

$$\frac{\text{EBIT}}{\text{EBT}} = \frac{2,60,000}{2,52,000} = 1.03$$

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BBA Q5 (ii)

Total Assets Turnover Ratio = $\frac{\text{Sales}}{\text{Total Assets}}$

$$3 = \frac{\text{Sales}}{2,00,000}$$

Sales = Rs. 6,00,000.

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Sales	Rs. 6,00,000
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(–) Fixed Cost	Rs. 1,00,000
EBIT	Rs. 2,60,000
(–) Interest	Rs. 8,000
EBT	Rs. 2,52,000
(–) Taxes	Rs. 1,26,000
Profit After Tax	Rs. 1,26,000

Calculation of Leverages :

(a) Operating Leverage :

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