Seat No. : _______________

AP-117

April-2022

M.B.A., Sem.-IV

Fundamentals of Financial Management

Time : 2 Hours] **[Max. Marks : 50**

SECTION – I

Attempt any **three** questions out of **five** :

1. (A) What do you understand by "Financial Management" ? Discuss the three broad areas of financial decision making which helps in achieving the goals of a finance manager. **7**

   (B) You can save ₹ 3,000 a year for 5 years & ₹ 5,000 a year for 10 years, thereafter, what will these savings cumulate to at the end of 10 years, if the rate of interest is 12%. **7**

2. (A) What do you understand by working capital management ? What are the types of working capital ? Also, explain operating cycle. **7**

   (B) From the following information estimate the net working capital requirement : **7**

Raw material	₹ 300/unit
Direct labour	₹ 150/unit
Overheads	₹ 200/unit
Total cost	**₹ 650/unit**

Additional information :

Selling price	₹ 800/unit
Output	50,000 units/annum

Raw material in stock : Average 4 weeks

Work in progress (50% completed with full material consumed)) : Average 2 weeks

Finished Goods in stock : Average 4 weeks

Credit allowed by suppliers : Average 4 weeks

Credit allowed to debtors ; Average 8 weeks

Cash at bank : ₹ 60,000

Assume Production is carried out evenly over the 52 weeks of the year.

3. (A) Explain the below terms : **7**

   (a) Net present value

   (b) Payback period

   (c) Average rate of return

   (d) Internal rate of return

(B) Determine the ARR from the following data of two machines X & Y. **7**

Particulars	**Machine X**	**Machine Y**
Cost	56,000	57000
Annual estimated income after depreciation & income tax (₹)		
Year 1	3,300	11,000
Year 2	5,300	9,000
Year 3	7,300	7,000
Year 4	9,300	5,000
Year 5	11,300	3,000
Estimated life (yrs.)	5	5
Estimated salvage value	3,000	3,000

From the above information ascertain which machine is more profitable.

4. (A) KS company issues ₹ 1,00,000, 10 per cent preference shares of ₹ 100 each redeemable after 10 years at face value. Cost of issue is 10 per cent. Calculate the cost of preference share with trial-and-error method. **7**

(B) SY company supplied the following information to you and requested to compute cost of capital based on book value and market values. **7**

Source of finance	**Book Value (₹)**	**Market Value (₹)**	**After Tax cost (%)**
Equity capital	20,00,000	25,00,000	15
Long term debt	10,00,000	9,50,000	7
Short term debt	5,00,000	5,00,000	4

5. She company has a capital structure exclusively comprising of ordinary shares amounting to ₹ 10,00,000. The company now wishes to raise additional ₹ 10,00,000 for the expansion. The company has four alternative financial plans : **14**

(A) It can raise the entire amount in the form of equity capital.

(B) It can raise 50 percent as equity capital and 50 percent as 5 % debentures.

(C) It can raise the entire amount as 6% debentures.

(D) It can raise 50 percent as equity capital and 50 percent as 5% preference capital.

Further assume that the existing EBIT are ₹ 1,20,000, tax rate is 35 per cent, outstanding ordinary shares 10,000 and the market price per share is ₹ 100 under all the four alternatives.

As a financial manager you have to rank all the alternatives and select the best one.

SECTION – II

(Attempt any 8 questions out of 10) **8**

(1) Average rate of return is
- (a) Average annual profits after taxes/average investment
- (b) Average annual profits before taxes/average investment
- (c) Average annual profits after taxes/initial investment
- (d) None

(2) To find the present value of a sum of ₹ 30,000 to be received at the end of each year for the next 10 years at 20% rate, we use
- (a) Present value of a single amount
- (b) Present value of annuity
- (c) Future value of a single amount
- (d) Future value of annuity

(3) Which one is not a part of Discounted cash flow capital budgeting technique ?
- (a) Net present value
- (b) Payback period
- (c) Internal rate of return
- (d) Profitability Index

(4) You have deposited ₹ 2,500 with a bank which pays 14% interest semi annually. What would be the value of this deposit at the end of 5 years ?
- (a) ₹ 4,925
- (b) ₹ 4,900
- (c) ₹ 4,200
- (d) ₹ 4,300

(5) Present value of cash inflow of project A is ₹ 30,000 & initial outlay is ₹ 20,000, Calculate the Profitability Index.
- (a) 1.50
- (b) 1.60
- (c) 1.40
- (d) 1.20

(6) Which one is a part of Current liabilities ?
- (a) Sundry debtors
- (b) Sundry creditors
- (c) Outstanding Income
- (d) Bills receivables

(7) Cost of capital is the ______ required rate of return expected by investors.

(a) minimum

(b) maximum

(c) average

(d) nil

(8) ______ is the cost associated with particular component at capital structure.

(a) General cost

(b) Specific cost

(c) Fixed cost

(d) Variable cost

(9) Contribution is divided by EBIT to get ____ leverage.

(a) operating

(b) financial

(c) combined

(d) fix

(10) Use of ______ bearing funds to magnify shareholders wealth is known as financial leverage.

(a) fixed cost

(b) variable cost

(c) average cost

(d) future cost