

**B.V. Patel Institute of Business Management, Computer & Information Technology,
Uka Tarsadia University**

2nd Internal Examination – B.Com (Computer Applications) 5th Semester

030100508 – CC8 Fundamentals of Financial Management

Max. Marks: 50

Date: 09/10/2017

Time: 2 hrs.

Q: 1 Answer the following (any five)

[10]

1. What is meant by net working capital?
2. What is accepting and rejecting criteria of IRR method in capital budgeting?
3. Write a formula of basic valuation model.
4. Why working capital called circulating capital?
5. What is mutually exclusive and independent project?
6. What are the three inputs required in valuation of bond?

Q: 2 Answer the following (any two)

[20]

1. A company is considering two mutually exclusive proposals 'A' and 'B'.

Proposal A will require an initial cost of Rs. 160,000 with a salvage value of Rs. 10,000 and will also require an increase in the level of inventories and receivables of Rs. 90,000 over its life. The project will generate additional sales of Rs. 200,000 and will require cash expenses of Rs. 70,000 in each year of its 5 year life. It will be depreciated by straight line method.

Proposal B will require an initial capital of Rs. 270,000 with a salvage value of Rs. 20,000 and depreciation will be on SLM. The expected earnings before depreciation and taxes during its life are:

Year	1	2	3	4	5
Earning Rs.	1,10,000	1,30,000	90,000	1,10,000	1,50,000

The company has to pay corporate income tax at the rate of 50% and is evaluating projects with 12% as the cost of capital.

- (1) Which of the project is acceptable under the present value method?
 - (2) Will it make any difference to the above decision if profitability index is employed?
2. **A.** Suppose an investor is considering purchasing of 12 yrs, 10%, and Rs. 100 par value preference share. The redemption value of preference share on maturity is Rs. 120/-. The required rate of return is 10.5%. What should s/he willing to pay for the share? Why?
 - B.** Suppose you buy a one-year government bond that has a maturity value of Rs 1,000. The market interest rate is 8 per cent. (a) How will you pay for the bond? (b) If you purchased the bond for Rs. 908.98, what interest rate will be you earn on your investment?

(P.T.O.)

3. A Performa cost sheet of a company provides the following information:

Particulars	Amount Rs. (Per Unit)
Raw Materials	80
Direct Labour	40
Overhead	<u>50</u>
Total Cost	170
Profit	<u>40</u>
Selling Price	210

The following further particulars are available:

- Raw material in stock on an average one month.
- Work-in-process (50%) completion stage) on an average half a month.
- Finished goods in stock, on an average one month
- Credit allowed by supplier is one month and credit allowed to debtors is two months.
- Average time-lag in payment of wages is 1.5 weeks and one month for overheads.
- One further of output is sold against cash.
- Cash in hand is desired to be maintained at Rs. 370,000.

You are required to prepare a statement showing the requirement of working capital to finance the level of activity of 108,000 units of production. You may assume that production is carried on evenly throughout the year.

Q: 3 Answer the following (any two)

[20]

- What is capital budgeting? Discuss the process of capital budget process.
- What is meant by valuation? Explain the importance of valuation. Also, discuss the relationship between interest rate and required rate of return in valuation of security.
- Explain the factors which affect the requirement of working capital for manufacturing firm.