BCOE-143 : FUNDAMENTALS OF FINANCIAL MANAGEMENT

1. A company is considering the purchase of two machines with the following details :

	Machine I	Machine II
Life estimated	5 years	5 years
Capital Cost	` 30,000	` 30,000
Net Cash flows :	`	`
1st year	8,000	2,000
2nd year	6,000	7,000
3rd year	4,000	10,000

You are required to suggest which machine should be preferred, using :

(a) Pay-back period method

(b) Discounted cash flow method and NPV method (using 20% discount factor).

2. (a) What is Leverage ? Discuss the types of Leverages.

(b) Mohan Ltd. issues 80000, 6% debentures of ` 10 each at a premium of 20%. The costs of floatation are 3%. The rate of tax applicable to the company is 50%. Compute the Cost of Debt Capital.

3. Write explanatory notes on any two of the following :

(a) Methods of Valuation of Shares

(b) Just-in-time inventory management

(c) Business Risk vs. Financial Risk

(d) Venture Capital

4. a) Define working capital and explain the differences between gross and net working capital with suitable examples.

b) What is the difference between permanent working capital and temporary working capital? Give one example of each.

5. From the following information, calculate:

Sales	50,000 units
Selling Price per unit:	50
Variable Cost per unit	20
Fixed Operating Costs:	600000
Interest on debt:	300000

(a) Operating Leverage
(b) Financial Leverage
(c) Combined Leverage

6. What is lease financing ? What are the advantages and disadvantages of lease financing ? Explain different types of lease.

7. a) What are the key factors that affect the efficiency of inventory management in a business?

b) Explain the concepts of Factoring and Forfaiting.

8. Prepare an estimate of Net Working Capital requirement for XYZ Ltd. adding 10% for contingencies from the information given below :

Estimated cost per unit of product 190

including :

Raw Materials 90

Direct Labor 20

Overheads 70

(Exclusive of Depreciation)

Selling price 300 per unit

Level of Activity per annum 104000 units

Raw Material in Stock 4 weeks

WIP (50% completion stage) 2 weeks

Finished goods in stock 4 weeks

Credit allowed by suppliers 4 weeks

Credit allowed to debtors 8 weeks

Lag in payment of wages 1.5 weeks

Cash at bank is expected to be ` 25,000

9. (a) Define Capital Structure. What should generally be the features of an appropriate capital structure ?

(b) Explain the concept of Risk and Return

10. Discuss M & M model of Capital structure without Taxes.

11.Explain in Baumol 's model of cash management .

12. What is ABC analysis?

13. Write explanatory notes on any two of the following : Write explanatory notes on any two of the following :

(a) Trade Credit

(b) Discount of Bill Exchange

(c) Inter Corporate deposit (IC)

(d) Yield to Maturity method

14. a) Explain the concept of risk and return

b) Discuss the different types of risk.

15. Define Capital Structure. What should generally be the features of an appropriate capital structure ?

16. Write explanatory notes on any two of the following :

a) Gross Working Capital vs. Net Working Capital
b) Factoring
c) Arbitrage Pricing Theory
d) Cost of Capital

17. a) What are the sources of short-term and long-term financing

b) Discuss the role of financial statements in financial management.

18. From the following information, calculate:

a) A company has net income of 5,00,000, total assets of 20,00,000, and shareholder equity of 8,00,000. Calculate the Return on Equity (ROE).

b) A company has issued bonds with a face value of 10,00,000, an annual coupon rate of 7%, and a maturity of 10 years. If the bonds are currently trading at 9,50,000, calculate the cost of debt for the company.

c) A company invests 50,000 in a project that offers annual cash flows of 15,000 for the next 6 years. The project will require an additional 10,000 investment in year 3 to maintain operations. Calculate the Net Present Value (NPV) of the investment, assuming a discount rate of 8%.

Should the company proceed with the project if the required rate of return is 10%?