	Sanjay Ghodawat University, Kolhapur Established under section 2(f) of UGC Act 1956 Sanjay Ghodawat University Act XL of 2017 of Govt. of Maharashtra	2020-21 EXM/P/09/01

2020, SY B. Com.	**School of Commerce and Management**	**Department of Commerce**
CBC 201	**FUNDAMENTALS OF FINANCIAL MANAGEMENT**	**Semester –III**
Day and Date: 01.12.2020, Tuesday	**End Semester Exam**	**Time: 11.00am-1.00pm** **Max Marks: 50**

Instructions: 1. Assume suitable data wherever necessary
2. Simple calculator is allowed.

		Marks	**CO's (Blooms level)**
Q.1	**Attempt any two**		
a)	Calculate Pay back Period and ARR from Projects and Give comments? A company has to make choice between two Projects namely A & B. Initial Investment of Rs.1, 35,000 and Rs.2, 40,000 Respectively. The Annual income are as follows	09	CO3(L5)

Year	Project A	Project B
1	-----	60000
2	30000	84000
3	132000	96000
4	84000	102000
5	84000	90000

b)	Calculate NPV. From Project A & B, (above Q.1 a) and advice which project has to accept. The company's cost of capitals 10%.	09	CO2(L5)
c)	What is Internal Rate of Return of a project and state the information that conveys to an investor?	09	CO3(L3)
Q.2	**Attempt any two**		
a)	A company raised preference share capital of Rs.1, 00,000 by the issue of 10% preference share of Rs.10 each. Find out the cost of preference share capital when it is issued at (i) 10% premium, and (ii) 10% discount	08	CO5(L4)
b)	A firm has the following capital structure and after-tax costs for the different sources of funds used	08	CO5(L4)

Source of	*Amount Rs.*	*Proportion%*	*After-tax cost %*
Debt	15,00,000	25	5
Preference Shares	12,00,000	20	10
Equity Shares	18,00,000	30	12
Retained Earnings	15,00,000	25	11
Total	60,00,000	100	

c) Explain the concept of cost of capital as a device for establishing a cutoff point of capital investment? 08 CO5(L2)

Q.3 Attempt any two

a) A firm has sales of Rs. 10, 00,000, variable cost of Rs. 7, 00,000 and fixed costs of Rs. 2, 00,000 and debt of Rs. 5, 00,000 at 10% rate of interest. Calculate the operating, financial and combined leverages. 08 CO6(L4)

b) (i) Find the operating leverage from the following data: CO6(L4)

Sales	Rs. 50,000
Variable Costs	60%
Fixed costs	Rs. 12,000

(ii) Find the financial leverage from the following data: 08

Net Worth	Rs. 25,00,000
Debt/Equity	3/1
interest rate	12%

c) Why is the wealth Management more useful than profit maximization as a objective of Financial Management?. 08 CO1(L3)

	Sanjay Ghodawat University, Kolhapur Established under section 2(f) of UGC Act 1956 Sanjay Ghodawat University Act XL of 2017 of Govt. of Maharashtra	2019-20 EXM/P/09/01

2020, SY B,Com	**School of Commerce and Management**	**Department of Commerce**
CBC 201	**FUNDAMENTALS OF FINANCIAL MANAGEMENT**	**Semester –III**
Day and Date:	**End Semester Exam**	**Time: Max Marks: 50**

Answer Key

Marks

Q.1 Attempt any two

a)

Year	Project A	Project B	CCI A	CCI B
1	-----	60000	0	60000
2	30000	84000	30,000	144000
3	132000	96000	162000	240000
4	84000	102000		
5	84000	90000		

09

PAY Back A 2 years 10 Months

PAY Back B 3.

Prject A Slected

b)

Year	Project A	Project B	Disc Factor	Value A	Value B
1		60000	0.909	0	54540
2	30000	84000	0.826	24780	69384
3	132000	96000	0.751	99132	72096
4	84000	102000	0.683	57372	69666
5	84000	90000	0.62	52080	55800
				233364	321486

09

NPV A = 233364 -135000= 98364

NPV B = 321486 – 240000=81486

Project A Selected

c) The **internal rate of return** on an investment or **project** is the "annualized effective compounded **return rate**" or "**rate of return**" that makes the net present value (NPV as NET*1/(1+**IRR**)^year) of all cash flows (both positive and negative) from a particular

09

investment equal to zero

The internal rate of return is a metric used in financial analysis to estimate the profitability of potential investments. The internal rate of return is a discount rate that makes the net present value (NPV) of all cash flows equal to zero in a discounted cash flow analysis.

Q.2 Attempt any two

a) 10 % Premium $Kp = D / P0 = 10 / 11 \times 100 = 9.09\%$

When share of Rs. 10 is issued at 10% discount

$p = PD / P0 = 10 / 9 \times 10 = 11.11\%$. 08

b)

Computation of Weighted Average Cost of Capital			
Source of Funds	***Proportion % (W)***	***Cost % (X)***	***Weighted Cost % Proportion Cost (XW) %***
Debt	25	5	1.25
Preference shares	20	10	2.00
Equity Shares	30	12	3.60
Retained Earnings	25	11	2.75
Weighted Average Cost of Capital			9.60%

08

c) In economics and accounting, the **cost of capital** is the **cost** of a company's funds (both debt and **equity**), or, from an investor's point of view "the required rate of return on a portfolio company's existing securities". It is used to evaluate new projects of a company

The significance and relevance of cost of capital has been discussed below

Investment Evaluation: 08

Designing Debt Policy:

Project Appraisal:

Q.3

a)

Sales	Rs.10,00,000
Less Variable cost	7,00,000
Contribution	3,00,000
Less fixed cost	2,00,000
EBIT	1,00,000
Less Interest @ 10% on 5,00,000	50,000
Profit after Tax	50,000

08

Operating leverage Contribution/ EBIT = 3,00,000/1,00,000 = 3

Financial Leverage EBIT/PBT = 1,00,000/50,000 = 2

Combined Leverage = 3x 2= 6

b) ((i) Calculation of Operating level rage:

Particulars	(Rs.)	
Sales	50,000	
Less: Variable Costs (60% of Sales)		30,000
Contribution	20,000	
less: Fixed Costs	12,000	
Operating Profit	8,000	

Operating leverage = Contribution/Operating profit
= Rs. 20,000/Rs. 8,000 = 2.5

II) Calculation of Financial Leverage

Working Notes:

Calculation of debt and interest thereon:

(a) Debt =Rs. 25,00,000 × 3 = Rs. 75,00,000

(b) Interest on debt = Rs. 75,00,000 × 12/100 = Rs. 9,00,000

Rs.	
Operating Profit	20,00,000
Less: Interest on debt	9,00,000
Profit before tax	11,00,000

Financial Leverage = Operating profit/Profit before tax
= Rs. 20,00,000/Rs. 11,00,000 = 1.82

08

c) Profit maximization vs Wealth maximization is a very common but a very crucial dilemma. The financial management has come a long way by shifting its focus from traditional approach to modern approach. The modern approach focuses on maximization of wealth rather than profit. This gives a longer term horizon for assessment, making way for sustainable performance by businesses.

08