

**NB-102**

November-2013

**B.B.A. Sem.-III****CC-202 : Fundamental of Financial Management****Time : 3 Hours]****[Max. Marks : 70**

1. (a) Discuss the goals of Financial Management. 7

**OR**

Explain the modern approach to finance function.

- (b) Attempt any **two** of the following : 7

- (i) An investor has two options to choose from

(a) ₹ 20,000 after 4 years

(b) ₹ 4,000 every year for 4 years.

Assuming 10% discount rate, which alternative should he opt for.

- (ii) X bank pays 12% and compounds interest quarterly. If ₹ 1,000 are deposited (initially), how much shall it grow at the end of 5 years ?

- (iii) Mohan bought a share 15 years ago for ₹ 10. It is now selling for ₹ 27.60. What is the compound growth rate in the price of the share ?

2. (a) Define working capital. Discuss any seven factors affecting it. 7

**OR**

Write a note on cost associated with receivables management and optimum credit policy.

- (b) Prepare a cash budget for three months ending 30<sup>th</sup> June 2014 from the information given below : 7

| (1) | Month    | Sales     | Materials | Wages    | Overheads |
|-----|----------|-----------|-----------|----------|-----------|
|     | February | 14,00,000 | 9,60,000  | 3,00,000 | 1,70,000  |
|     | March    | 15,00,000 | 9,00,000  | 3,00,000 | 1,90,000  |
|     | April    | 16,00,000 | 9,20,000  | 3,20,000 | 2,00,000  |
|     | May      | 17,00,000 | 10,00,000 | 3,60,000 | 2,20,000  |
|     | June     | 18,00,000 | 10,40,000 | 4,00,000 | 2,30,000  |

- (2) 10% of sales are cash sales. 50% of credit sales are collected in the next month and balance in the following month.

- (3) Creditors for : Materials – 2 months

Wages – 1/4<sup>th</sup> month

Overheads – 1 month

The overheads include depreciation worth ₹ 50,000 in each month's overheads.

- (4) Cash and Bank balance on 1<sup>st</sup> April 2014 is expected to be ₹ 6,00,000.
- (5) Other Relevant Information :
- (i) Plant and Machinery will be installed in February 2014 at a cost of ₹ 96,000. The equal instalments over a period of 3 months from April 2014 to June 2014 would be paid.
  - (ii) Dividend @ 5% on preference share capital of ₹ 2,00,000 will be paid on 1<sup>st</sup> June 2014.
  - (iii) Advance to be received for sale for vehicles ₹ 9,00,000 in June.
  - (iv) Dividends from investment amounting to ₹ 10,000 are expected to be received in June.

Prepare Cash Budget for April, May and June 2014.

**OR**

- (b) (i) Find out EOQ and total cost of Inventory. 7
- |                     |                 |
|---------------------|-----------------|
| Monthly consumption | 500 units       |
| Ordering cost       | ₹ 500 per order |
| Carrying cost       | 20%             |
| Purchase price      | ₹ 50 per unit.  |
- (ii) Tanu Ltd. has following interest rate cost associated with receivables. Calculate interest cost from sellers point of view and buyers point of view.
- (1) 3/20 Net, 80
  - (2) 2/5 Net, 25

3. (a) The capital structure of Smart Ltd consists of equity share capital of ₹ 20,00,000 (Shares of ₹ 100 each) and ₹ 15,00,000 of debentures. Sales increased by 25% from 100000 units to 125000 units, the selling price is ₹ 10 per unit, variable cost amount to ₹ 6 per unit and fixed expenses amount to ₹ 2,50,000. The tax rate is assumed to be 50%. You are required to calculate the following :
- (i) % age increase in EPS.
  - (ii) The degree of financial leverage at 1,00,000 and 1,25,000 units.
  - (iii) The degree of operating leverage at 1,00,000 and 1,25,000 units. 7

**OR**

The operating income of a textile firm amounts to ₹ 2,00,000. It pays 50% tax on its income. The capital structure consists of the following :

|                            | ₹        |
|----------------------------|----------|
| 14% Debentures             | 5,00,000 |
| 15% Pref. shares           | 1,00,000 |
| Equity shares (₹ 100 each) | 4,00,000 |

- (i) Determine the firms EPS.
- (ii) Determine the % age change in EPS associated with 30% change (both increase and decrease) in EBIT.
- (iii) Determine the degree of financial leverage at the current level of EBIT.

(b) Calculate the level of EBIT at which the indifferent point between the following financing alternatives will occur : 7

- (i) Ordinary share capital of ₹ 10 lakhs or 15% debentures ₹ 5 lakhs and ordinary share capital of ₹ 5 lakhs.
- (ii) Ordinary share capital of ₹ 10 lakhs or 13% preferences share capital of ₹ 5 lakhs and ordinary share capital of ₹ 5 lakhs.
- (iii) Ordinary share capital of ₹ 10 lakhs or ordinary share capital of ₹ 5 lakh, 13% preferences share capital of ₹ 2 lakh and 15% debentures of ₹ 3 lakh.

Assume that the corporate tax rate is 50% and the price of the common share is ₹ 10 in each case.

**OR**

A new project is under consideration by Ram Ltd. which requires a capital investment of ₹ 150 lakhs. Interest on firm loan is 12% and tax rate is 50%. If the debt-equity ratio insisted by the financing agencies is 2 : 1, calculate the point of indifference for the project where the other alternative is issuing the entire capital by way of issue of equity shares.

4. (a) Write a short note on IRR, ARR and NPV as technique of Capital Budgeting. 7

**OR**

What are the kinds of Capital Budgeting Decision ?

(b) Narmadha Ltd. considers the purchase of one of the two machines. As the basis for selection, the following data was developed : 7

| Particulars      | Machine R     | Machine P     |
|------------------|---------------|---------------|
|                  | ₹             | ₹             |
| Original Cost    | 25,565        | 25,565        |
| Profit After tax | R             | P             |
| Year 1           | 687           | 4,687         |
| Year 2           | 1,687         | 3,687         |
| Year 3           | 2,687         | 2,687         |
| Year 4           | 3,687         | 1,687         |
| Year 5           | 4,687         | 687           |
|                  | <b>13,435</b> | <b>13,435</b> |

The expected rate of return for the company is 16%. Both the machines have a life of five years and will not have any salvage value. The company is in the 40% tax bracket. You are required to calculate NPV. Suggest the most profitable machine.

**OR**

(b) ABC Ltd. plans to purchase a machine costing ₹ 10,00,000 with estimated life of 5 years having nil scrap value. Evaluate the decision using the following Capital Budgeting Techniques :

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(i) ARR

(ii) IRR

(iii) PI

Estimated profit after tax

| Year | PAT (₹)  |
|------|----------|
| 1    | 1,00,000 |
| 2    | 30,000   |
| 3    | 20,000   |
| 4    | 50,000   |
| 5    | 1,00,000 |

The company falls under 40% tax slab and expects minimum 11% return on capital employed.

5. Attempt all (each blank carry 1 mark) :

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- (1) Wealth Maximization is also known as \_\_\_\_\_.
- (2) Financial management involves-financing decision, \_\_\_\_\_ decision and dividend decision.
- (3) \_\_\_\_\_ and \_\_\_\_\_ are the key roles of a financial manager in large organizations.
- (4) The optimum level at which order for new inventory should be placed in a business is known as \_\_\_\_\_.
- (5) Speculative motive is one of the motives of holding cash. (True/False)
- (6) \_\_\_\_\_ is the best decision technique for mutually exclusive projects.
- (7) \_\_\_\_\_ analysis classifies stock into 3 categories as per their value.
- (8) \_\_\_\_\_ means equal amount of cash flows at equal time period.
- (9) If  $NPV < 0$  we accept the proposal. (T/F)
- (10) \_\_\_\_\_ is a statement showing the estimated cash inflows and cash outflows for a particular period.
- (11) Table A-4 is used for finding out present value of an annuity. (T/F)
- (12) A liberal credit policy results into increased sales and profits. (T/F)
- (13) Financial leverage is associated with \_\_\_\_\_ decisions. (Financial/Investment)