Seat No. : _____

MB-102

March-2019

B.B.A., Sem.-III

CC-202 : Fundamentals of Financial Management

Time : 2:30 Hours] **[Max. Marks : 70**

Instructions : (1) Show calculations wherever required.
(2) Present value tables will be provided on request.

1. (A) Define financial management. Discuss profit maximization as a goal of financial management. In the light of limitations of profit maximization Goal, discuss shareholder's wealth maximization as a better goal of Financial management. **14**

OR

(i) Mr. A borrowed ₹ 3,00,000 to be paid in five equal annual installments of principal plus interest. The annual rate of interest is 10%. Prepare a Loan amortization schedule. **7**

(ii) Mr. X invests ₹ 5,00,000 in a bank for 4 years at 12% annual rate of return. What amount does he receive at the end of 3 years in case of (i) semi-annual compounding and (ii) quarterly compounding ? Suggest, which option is better and why. **7**

(B) Do as directed : (Any **four** out of **six**) **4**

(1) In organizing finance function, two important financial roles are _____ and _____. (treasurer, controller/debtor, creditor)

(2) Investment and financing are executive finance functions. (True/False)

(3) _____ means equal amount of cash flows at equal time intervals. (Interest/Annuity)

(4) When compounding is done for shorter periods, the rate of interest is known as _____ rate of interest. (nominal/effective)

(5) If ABC Limited has borrowed ₹ 1,000 to be repaid in 12 monthly installments of ₹ 94.56, the annual rate of interest is _____. (24%/2%)

(6) The present value of perpetuity of ₹ 100 per year, given the discount rate of 10% is _____. (10/1,000)

2. (A) What is working capital management? Discuss the dangers of excessive and inadequate working capital. Explain factors affecting Working capital needs of a business. **14**

OR

(i) Prepare cash budget for 3 months from April to June from the following data. **7**

Month	Sales	Raw-material	Salaries
March	2,00,000	90,000	50,000
April	2,50,000	1,10,000	54,000
May	2,20,000	2,00,000	58,000
June	1,00,000	1,00,000	52,000

Other Information :

- Cash balance on 31st March is ₹ 20,000.
- 40% sales are for cash and remaining for a credit of one month.
- Raw-Material payment is delayed by one month and salaries by Half a month.
- Vehicle purchased in June for ₹ 3,00,000 payable 50% in the same Month and balance after 2 months.

(ii) PQR Limited requires 90,000 units of a component annually. Cost Per component is ₹ 2,000. Ordering cost is ₹ 3,200 per order and carrying cost is 20%. Calculate Economic Order Quantity, number of Orders and new Economic Order Quantity if the cost per component becomes four times the original. **7**

(B) Do as directed : (Any **four** out of **six**) **4**

(1) Difference between current assets and current liabilities is known as _____ working capital. (gross/net)

(2) Character is one of the three Cs to check the credit worthiness of a customer in business. (True/False)

(3) The cycle of raw-material conversion into cash is known as _____ cycle. (dividend/operating)

(4) The interest cost from seller's point of view for '2/10 net, 50' credit term is _____. (18.25%/20.5%)

(5) If average receivables are ₹ 2,00,000 and credit sales is ₹ 50,00,000, the average collection period is _____ days. (25/14.4)

(6) _____ analysis classifies stock into 3 categories as per their value. (ABC/EOQ)

3. (A) A Limited is considering a capital structure of ₹ 30,00,000 for which following options are available : **14**

Plan 1 : 30,000 equity shares OR 15,000 equity shares and 15,000 10% Debentures.

Plan 2 : 30,000 equity shares OR 20,000 equity shares and 10,000 12% Preference shares.

Plan 3 : 30,000 equity shares OR 10,000 equity shares, 10,000 12% Preference shares and 10,000 10% debentures.

Assume corporate tax rate to be 55% and the value of all shares and Debentures to be ₹ 100 each.

Calculate :

(1) Financial Break-Even Point for each option of plan 1,2 and 3.

(2) Indifference point between Plan 1 and Plan 2, Plan 2 and Plan 3, Plan 1 and Plan 3.

OR

(i) A company's capital structure consists of equity share capital of ₹ 40,00,000 (Shares of ₹ 100 par value) and ₹ 40,00,000 10% Debt. Selling price of product is ₹ 10 per unit, variable cost is ₹ 5 Per unit, fixed expenses amount to ₹ 4,00,000. Tax rate is 35%. **7**

Calculate :

(1) % increase in EPS, if sales increase from 4,00,000 to 4,40,000 units.

(2) Operating Leverage, Financial Leverage and Combined Leverage at 4,00,000 and 4,40,000 units.

(ii) Calculate Operating Leverage, Financial Leverage and Combined Leverage under Situation-I and Situation-II as well as Financial Plans A and B. **7**

- Production and Sales : 10,000 units
- Selling Price per unit : ₹ 100
- Variable Cost per unit : ₹ 50
- Fixed cost under Situation-I : ₹ 80,000
- Fixed cost under Situation-II : ₹ 1,00,000
- Capital Structure :

Financial Plan	Plan A	Plan B
Equity	2,00,000	1,00,000
Debt @ 20%	2,00,000	3,00,000
Total	4,00,000	4,00,000

(B) Do as directed : (Any **three** out of **five**) **3**

(1) The level of EBIT of a firm which is just enough to cover its fixed charges is known as _____. (leverage/Financial BEP)

(2) The best combination of leverages for achieving Shareholders' Wealth Maximization is _____ (low/high) operating leverage and _____ (low/high) financial leverage.

(3) The level of EBIT at which EPS for various financial plans remains the same is known as _____ point. (indifference/leverage)

(4) If sales is ₹ 50,000; Variable Cost is 60% and fixed costs amount to ₹ 12,000; Operating Leverage is _____. (5/2.5)

(5) If equity of a business is ₹ 25,00,000; Debt/Equity Ratio is 3:1; interest rate is 12% and EBIT is ₹ 20,00,000; Financial Leverage is _____. (1.82/1.25)

4. (A) Define Capital Budgeting. Mention the various Capital Budgeting appraisal techniques. Discuss Pay-Back Period and Accounting Rate of Return as traditional Capital Budgeting appraisal techniques. **14**

OR

(i) A company is considering an investment of ₹ 8,00,000. Life of Project is expected to be 5 years with a salvage value of ₹ 2,50,000. Tax rate is 50% and depreciation is straight line method. If estimated Cash Flows before Depreciation and Taxes are as under, calculate Pay-Back Period and Net Present Vaiue at 12%. **7**

Year	Cash Flows
1	1,20,000
2	1,60,000
3	2,20,000
4	1,80,000
5	1,60,000

(ii) For an investment of ₹ 2,50,000, cash flows for five years are as Follows. **7**

Year	Cash Flows
1	50,000
2	60,000
3	80,000
4	90,000
5	60,000

Calculate Internal Rate of Return for the project and suggest whether the investment is worthy or not; if the threshold rate of Return is 9%.

(B) Do as directed : (Any **three** out of **five**) **3**

(1) _____ is the only Capital Budgeting appraisal technique that uses PAT; and not CFAT for calculations. (Accounting Rate of Return/Internal Rate of Return)

(2) The rate of return of a project at which Net Present Value is equal to zero is called _____. (Pay-Back Period/Internal Rate of Return)

(3) _____ is the best Capital Budgeting appraisal technique for mutually exclusive projects. (Net Present Value/Internal Rate of Return)

(4) If investment for a project is ₹ 40,000 and constant annual Cash Flow is likely to be ₹ 8,000; Pay-Back Period is _____ Years. (5/10)

(5) If calculated Accounting Rate of Return for a proposed project is less than the minimum required Rate of Return, the project should be _____. (accepted/rejected)
