

JG-108

January-2021

B.B.A., Sem.-III

CC-202 : Fundamentals of Financial Management

Time : 2 Hours]

[Max. Marks : 50

- Instructions :** (1) All Questions in Section I carry equal marks.
 (2) Attempt any TWO questions in Section I.
 (3) Question V in Section II is COMPULSORY.

Section – I

1. (A) "Wealth maximization approach is considered as a better goal than the profit maximization approach in financial management." Justify this statement. **10**
- (B) Mr. A has borrowed ₹ 10,00,000 to be paid in 5 equal annual instalments including principal plus interest. The rate of interest is 15% p.a. Prepare an Amortisation Schedule. **10**
2. (A) Define working capital and explain the dangers associated with inadequate and excessive working capital. **10**
- (B) Padam Ltd. likes to check the cash requirements for the period of 3 months from April, 2020 to June, 2020. Prepare a cash budget for the above period from the following data :

Months	Sales (₹)	Purchases (₹)	Wages (₹)	Mfg. Exp. (₹)	Office Exp. (₹)	Selling Exp. (₹)
February	90,000	62,000	6,000	1,500	1,000	1,000
March	96,000	72,000	7,000	2,000	500	2,000
April	54,000	1,21,500	5,500	1,500	750	1,000
May	87,000	1,23,000	6,000	2,250	1,000	2,500
June	63,000	1,34,000	7,500	2,500	1,250	2,000
July	70,000	1,40,000	8,500	2,750	1,500	2,250
August	80,000	1,50,000	9,000	3,000	1,500	2,500

- (a) (b) Cash on hand on 1-4-2020 was ₹ 12,500
- (c) 50% of credit sales are realized in the month following the sales and remaining 50% in the second month following the sales. Creditors are paid in the month following the month of purchase.
- (d) Lag in payment of manufacturing expenses $\frac{1}{2}$ month.
- (e) Lag in payment of other expenses is 1 month. **10**

3. (A) Ramoji Ltd. is considering three financial plans for raising total investment of ₹ 4,00,000.

Plan	Equity	Debt	Preference Shares
A	100%	—	—
B	50%	50%	—
C	50%	—	50%

The cost of preference shares and debt is same @ 8%. The tax rate is 50%. The face value of equity shares is ₹ 10 per share. You are required to determine the indifference points between :

Plan A and Plan B

Plan B and Plan C

Plan A and Plan C

- (B) Write a detailed note on the limitations of Trading on Equity.

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4. (A) Satya Ltd. wants to purchase a machine. The particulars are as under :

Capital Investment	₹ 5,00,000
Scrap Value	₹ 1,00,000
Useful Life	5 yrs.
Rate of tax	50%

Other Details :

Years	Estimated profit after depreciation and before tax	Present value of ₹ 1 @ 10% discount rate
1	20,000	0.909
2	40,000	0.826
3	50,000	0.751
4	60,000	0.683
5	1,20,000	0.621

Determine pay-back period and NPV of the above proposal.

- (B) Discuss various types of capital budgeting decisions under 'Capital Budget'.

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Section – II

5. Do as directed : (10 out of 20)

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- (1) Financial management is concerned with the _____ problems of the business organization.

- (a) personnel (b) production
(c) financial (d) marketing

- (2) Which approach is also known as narrow minded approach ?

- (a) Modern approach (b) Traditional approach
(c) None of the above (d) Both of them

- (3) Wealth maximization means maximization of ____.
- (a) gross profit (b) sales
(c) production (d) net worth of the shareholders
- (4) Both the future value and present value of a sum of money are based on ____.
- (a) Interest rate (b) Time period
(c) Both (d) None of them
- (5) A series of equal but consecutive payments is known as ____.
- (a) Royalty (b) Gratuity
(c) Annuity (d) None of them
- (6) To increase the present value the discount rate should go ____.
- (a) Downward (b) Upward
(c) Steady (d) None of these
- (7) Net working capital = ____.
- (a) CA - CL (b) CA + CL
(c) Total Current Assets (d) Total Current Liabilities
- (8) ____ share capital is the part of the capital which is not tied up in fixed assets.
- (a) Equity (b) Authorised
(c) Working (d) Preference
- (9) Operating cycle of the company can be symbolically written as ____.
- (a) $R + W + F + D - C$ (b) $R + D + F + W - C$
(c) $R + F + D + W - C$ (d) $R + C + D + W$
- (10) From the following which is not the motive for holding inventory ?
- (a) Transaction motive (b) Speculative motive
(c) Distributive motive (d) Precautionary motive
- (11) ____ is not included in cash.
- (a) Coins (b) Currency
(c) Debts (d) Balance in Bank Account
- (12) The ____ credit policy can be used to increase the sales.
- (a) strict (b) stringent
(c) liberal (d) none of these

- (13) Trading on equity means _____ financial leverage.
- (a) equal (b) favourable
(c) smaller (d) unfavourable
- (14) The degree to which debt is used in acquiring assets is called _____.
- (a) Trading on equity (b) Trading on thin equity
(c) Trading on thick equity (d) Capitalisation
- (15) _____ leverage is a double edged sword.
- (a) Operating (b) Financial
(c) Business (d) Assets
- (16) Capital budgeting is based on _____.
- (a) Replacement investment (b) Strategic investment
(c) Development investment (d) All of these
- (17) Internal rate of return is also known as
- (a) Time adjusted rate of return method
(b) Yield rate method
(c) Trial error method
(d) All of these
- (18) For computation of average investment the _____ value is added in the cost price of the new investment.
- (a) Scrap value (b) Depreciation
(c) Tax (d) All of them
- (19) If NPV is positive then
- (a) $PI > 1$ (b) $PI < 1$
(c) $PI = 0$ (d) None of these
- (20) Average rate of return method is a non-discounting technique in capital budgeting.
- (a) True (b) False
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