

NH-110

December-2015

B.B.A., Sem.-III

CC-202 : Fundamentals of Financial Management

Time : 3 Hours]

[Max. Marks : 70

1. (a) Explain profit maximization versus shareholders' wealth maximization as goals of financial management. 7

OR

Discuss the various executive and routine finance functions.

- (b) Mr. A has borrowed ₹ 2,00,000 to be paid in five equal annual installments of principal plus interest the rate of interest is 15%. Prepare a loan amortization schedule. 7

OR

Mr. X has ₹ 1,00,000 to be deposited in a bank account for 3 years at 16% annual rate of interest. Calculate the amount he will receive at the end of 3 years, effective rate of interest and the best option, if compounding can be done

- (i) Annually
(ii) Semi-annually
(iii) Quarterly

2. (a) Explain the dangers of excessive and inadequate working capital. 7

OR

Write a note on "Credit Policy Variables".

- (b) (i) ABC Limited produces 1,00,000 units of a component and sells it at ₹ 100 per unit. 60% sales is for credit. Average amount of receivables is ₹ 3,00,000. Calculate Average Collection Period. 2

- (ii) A company requires 90,000 units of an item annually. Cost per unit is ₹ 5. Cost per purchase order is ₹ 300 and inventory carrying cost is ₹ 6 per unit per years. 5

- Calculate EOQ.

- If supplier gives 2% discount for placing an order of 4,500 units and 3% discount for placing an order of 6,000 units, what should the company do ?

OR

(b) From following information prepare a monthly cash budget for 3 months ending 31st March. 7

- (i) Sales is expected to be ₹ 1,00,000, ₹ 1,20,000 and ₹ 1,10,000 in 3 months.
- (ii) Purchases for December, January, Feb. and March are ₹ 80,000, ₹ 60,000, ₹ 65,000 and ₹ 70,000 respectively. 40% is paid in next month.
- (iii) Rent per month ₹ 4,000.
- (iv) Cash expenses ₹ 12,000 per month.
- (v) Wages for December, January, February and March ₹ 10,000, ₹ 11,000, ₹ 12,000, and ₹ 13,000 respectively. Wages are delayed by 15 days.
- (vi) ₹ 35,000 is paid for purchase of vehicle in March.
- (vii) Present cash balance ₹ 15,000.

3. (a) Calculate operating, financial and combined leverage under situations A, B and C and financial plans 1, 2 and 3. 7

Production 1,000 units

Selling price per unit ₹ 100

Variable cost per unit ₹ 50

Fixed cost : Situation A : ₹ 10,000

Situation B : ₹ 20,000

Situation C : ₹ 30,000

Capital structure :

Financial Plan	1	2	3
Equity	1,00,000	1,50,000	50,000
Debt @ 10%	1,00,000	50,000	1,50,000
Total	2,00,000	2,00,000	2,00,000

OR

Capital structure of ABC Limited consists of ₹ 10,00,000 equity share capital (shares of ₹ 100 per value) and ₹ 10,00,000 10% debentures. The unit sales increased by 10% from 1,00,000 to 1,10,000 units. Selling price per unit is ₹ 10, variable cost per unit is ₹ 6 and fixed costs ₹ 2,00,000. Tax rate is 35%. Calculate :

- (i) Operating, Financial and Combined leverage at 1,00,000 and 1,10,000 units .
- (ii) % change in EPS from 1,00,000 to 1,10,000 units.

- (b) A company needs finance of ₹ 30,00,000 to implement various capital budgeting projects. Financing options include :

Plan (A) → Either ₹ 30,00,000 equity OR ₹ 15,00,000 10% debentures and ₹ 15,00,000 equity.

Plan (B) → Either ₹ 30,00,000 equity OR ₹ 10,00,000 13% preference shares and ₹ 20,00,000 equity.

Plan (C) → Either ₹ 20,00,000 equity share capital and ₹ 10,00,000 10% debentures OR 13% preference shares of ₹ 10,00,000, 10% debentures of ₹ 8,00,000 and ₹ 12,00,000 equity.

Assuming 35% tax rate and face value of shares and debentures ₹ 100 each, calculate indifference point for each plan.

OR

A company requires ₹ 30,00,000 to finance projects. Options include

	Plan A	Plan B	Plan C
Option 1			
Equity Shares	30 lakhs	30 lakhs	30 lakhs
Option 2			
Equity Shares	15 lakhs	20 lakhs	10 lakhs
12% preference shares	Nil	10 lakhs	10 lakhs
10% Non-convertible debentures	15 lakhs	—	10 lakhs

Assuming 35% corporate tax rate and face value of all shares and debentures to be ₹ 100 each, calculate indifference point for Plan A, Plan B and Plan C.

4. (a) What is Capital Budgeting ? Discuss the various types of investments under capital budgeting.

OR

Discuss the traditional capital budgeting appraisal techniques.

- (b) ABC Limited is planning to buy a new machinery costing ₹ 1,20,000. Estimated maintenance cost is ₹ 10,000 each year for working life of 5 years. Its scrap value is estimated to be ₹ 30,000. The cash flows before depreciation, taxes and maintenance are as follows :

Year	CFAT
1	50,000
2	60,000
3	90,000
4	60,000
5	50,000

Company charges SLM depreciation. Assuming a discount rate of 10% and tax rate of 50%. State whether this project should be accepted or not using NPV criterion.

OR

(b) For an investment of ₹ 1,00,000 CFAT are as under :

Year	CFAT
1	40,000
2	50,000
3	60,000
4	50,000
5	40,000

Calculate IRR. If threshold rate of return is 12% should this investment be accepted or not ?

5. Fill in the blanks with suitable answers :

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- The two important roles of a finance manager in organization of finance function are _____ and _____.
- The three C's to check credit worthiness of a customer before granting credit are _____, _____ and _____.
- Method of inventory control in which all inventory is divided into 3 categories as per its value is known as _____.
- The level of EBIT at which the firm can just satisfy all fixed financial charges is known as _____.
- A series of periodic cash flows of equal amounts is known as _____.
- The rate of return of an investment which gives zero NPV is known as _____.
- The only capital budgeting appraisal technique which uses PAT as a measure is known as _____.
- _____ is the best appraisal technique for mutually exclusive projects.
- When compounding of an investment is done for shorter periods (than a year) an investor earns slightly higher rate of interest known as _____.
- Total investment in current asset of a business is known as _____ working capital and difference between current assets and current liabilities is known as _____ working capital.