

Seat No. : J257

DB-102

December-2018

B.B.A., Sem.-III

CC-202 : Fundamentals of Financial Management

Time : 2:30 Hours]

[Max. Marks : 70

Note : Questions carrying 14 marks, have equal marks for theory and numerical.

1. (A) Explain status and duties of a Financial Manager, Controller and Treasurer.
Mr. X has borrowed ₹ 10,00,000 to be paid in 5 equal installments. The rate of interest is 15%. Prepare a loan amortization schedule. 14
- OR**
- (i) Explain various functions of finance. 7
- (ii) Calculate effective rate of interest for rate of interest 12% if compounding is being done quarterly. 7
- (B) MCQs (Any four out of Six) 4
- (1) Effective rate of interest takes in to consideration _____.
(compounding, discounting, capital recovery)
- (2) Provision of finance is a function of _____. (controller, treasurer, auditor)
- (3) Reciprocal of present value of annuity factor is _____ factor.
(capital, recovery, capital recovery)
- (4) If compounding is done every month for 2 years, then compounding is done for _____ periods. (12, 24, 36)
- (5) Modern approaches suggest _____ and investing as major functions of finance. (acquisition, dividend, amalgamation)
- (6) Liquidity decisions are also known as _____ management. (working capital, investment, procurement)

2. (A) Explain various motives of holding cash.

Prepare cash budget for 3 months ending December.

Sr.	Particulars	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1.	Sales	30000	32500	35000	37500	40000	41000	44500
2.	Purchase	18000	20000	24000	22500	24000	20000	25000
3.	Wages			7500	7500	9000	9000	10000
4.	Expenses			2500	3000	3000	4000	4000
5.	Cash balance On 1/10/18					10000		
6.	Rent payable in advance	150	150	150	150	150	150	150
7.	Adv. Payment of income tax						2500	
8.	Purchase of plant					5000		

10% of purchases and sales are on cash terms. Time lag in payment for credit sales is 2 months, credit purchase is 1 month, wages $\frac{1}{2}$ month and expenses $\frac{1}{4}$ month.

OR

- (i) Explain dangers of excessive and inadequate working capital. 7
- (ii) Firm A is thinking of increasing credit period from present 45 days to 72 days. Credit sales will increase to 21000 from 18000 units, average collection period will increase to 90 days from 60 days. Bad debts will increase from 2% to 4% of sales. Per unit: Selling price is ₹ 20, average cost is ₹ 15 and variable cost is ₹ 12. The firm's expected rate of return is 20%. Should the firm extend credit policy? 7

(B) MCQs (Any four out of Six) 4

- (1) Operating cycle _____ creditors payment period, (adds, deducts, multiplies)
- (2) _____ motive of holding cash refers to meeting of day to day expenses. (precautionary, speculative, transaction)
- (3) O in EOQ stands for _____. (order, optimal, over)
- (4) D in VED analysis refers to _____. (defective, desirable, diminishing)
- (5) _____ is one of the five C's for determining credit worthiness of a customer, (control, collection, collateral)
- (6) 3/15 net 45, means _____ % cash discount will be given in 15 days. (2, 3, 5)

3. (A) Calculate operating, financial and combined leverage for situations A,B,C and Plans 1, 2, 3 :

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Plan 1 - Equity capital of ₹ 2,00,000 and Debt ₹ 2,00,000 @ 10%			Plan 2 - Equity capital of ₹ 3,00,000 and Debt ₹ 1,00,000 @ 10%			Plan 3 - Equity capital of ₹ 1,00,000 and Debt ₹ 3,00,000 @ 10%		
Sitn. A:	Sitn. B	Sitn. C:	Sitn. A:	Sitn. B	Sitn. C	Sitn. A:	Sitn. B	Sitn. C
Fixed cost:	Fixed cost:	Fixed cost:	Fixed cost:	Fixed cost:	Fixed cost:	Fixed cost:	Fixed cost:	Fixed cost:
10000	20000		10000	20000				
		30000			30000	10000	20000	30000

Units produced: 2000, Selling price: 100 ₹ , Variable cost: 50 ₹ /unit.

OR

- (i) Calculate indifference point for following two financing plans: Plan 1: 6,00,000 equity shares of ₹ 10 Plan 2: 2,00,000 equity shares of ₹ 10 and balance from debt @ 18% interest. Tax rate is 40%. 7
- (ii) Calculate indifference point for following two financing plans: Plan 1: 10000 equity shares of ₹ 100 Plan 2 : 5000 equity shares of ₹ 100 and balance from debt @ 10% interest. Tax rate is 40%. 7

(B) MCQs (Any three out of five) 3

- (1) EBT is lesser than EBIT due to _____. (Interest, tax, fixed cost)
- (2) EAT / No. of shares give _____. (FBE, EPS, EBIT)
- (3) _____ leverage takes place when change in sales produces even greater change in EBIT. (financial, operating, EOQ)
- (4) _____ point is EBIT level at which EPS is same of two alternative financial plans. (reorder, indifference, financial break even)
- (5) _____ refers to level of EBIT enabling firm to satisfy all fixed financial charges, (reorder, indifference, financial break even)

4. (A) Explain modern techniques of capital budgeting. Determine NPV at 10% discount factor, profitability index at 10% discount factor.

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Year	Net cash flow
0	- 40000
1	+ 7000
2	+ 7000
3	+ 7000
4	+ 7000
5	+ 7000
6	+ 8000
7	+10000
8	+15000
9	+10000
10	+ 4000

OR

- (i) Discuss traditional capital budgeting techniques. 7
 (ii) Calculate internal rate of return from the following : 7

Year	Cash flows
0	- 60000 (investment)
1	+ 22000
2	+ 18000
3	+ 14000
4	+ 16000
5	+ 10000

(B) MCQs (Any three out of five)

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- (1) PAT is used only in _____ technique. (ARR, IRR, PBP)
- (2) _____ is rate of return at which NPV is equal to 0. (PBP, ARR, IRR)
- (3) _____ decision is a capital budgeting decision. (replacement, modernisation, both)
- (4) Mutually _____ projects excludes the other. (exclusive, inclusive, beneficial)
- (5) Problem of capital _____ arises when investible funds are limited. (rationing, bursting, bruising)