

Seat No. : _____

N25-101

December-2014

B.B.A., Sem.-III

CC-202 : Fundamentals of Financial Management

Time : 3 Hours]

[Max. Marks : 70

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

1. (a) "As compared to profit maximization, shareholders' Wealth Maximisation is a better goal of financial management." Justify the statement. 7

OR

Discuss the Organisation of finance function in large Organisations.

- (b) Mr. A has ₹ 10,000 which he wants to invest for 3 years at 12% per annum. 7
- What amount will be receive if compounding is done
 - (i) Annually ?
 - (ii) Semi-annually ?
 - (iii) Quarterly ?
 - Which Option is the best ?

OR

An investor has two options to choose from.

- ₹ 9,000 after 4 years
- ₹ 2,000 every year for 4 years.

Assuming a discount rate of 10%, which alternative should be opt for ?

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

OR

Explain the credit policy variables associated with receivables management.

- (b) Prepare a Cash Budget for 3 months ending 31st March, 2015 from the information given below :

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Month	Sales	Materials	Wages	Overheads
December	10,00,000	9,00,000	2,00,000	1,00,000
January	11,00,000	9,20,000	2,40,000	1,10,000
February	12,00,000	9,60,000	2,80,000	1,20,000
March	13,00,000	10,00,000	3,20,000	1,30,000

- (2) 50% sales are collected in the same month and remaining 50% in the next month.
 (3) Material payment is received one month late.
 (4) Wages are paid 1/4th month late.
 (5) Cash balance on 1st January, 2015 is expected to be ₹ 2,00,000.
 (6) Vehicle costing ₹ 1,50,000 will be purchased in February 2015. Payment will be 50% in February and 50% after 3 months.

OR

- (i) Calculate EOQ and number of orders 4
 Annual Consumption – 12,000 units
 Ordering Cost – ₹ 120 per order
 Carrying cost – 20%
 Purchase price – ₹ 100 per unit
- (ii) ABC Limited provides following terms associated with credit sales : 3
 (a) 2/10 net, 50
 (b) 2/15 net, 45
 (c) 2/5 net, 25

Calculate interest cost from sellers point of view for the given 3 terms.

3. (a) Calculating operating, financial and combined leverage under Situation I and II and financial Plans A and B. 7

Production and sales – 3,000 units
 Selling price – ₹ 40 per unit
 Variable cost – ₹ 20 per unit

Fixed Cost :

Under Situation I – ₹ 20,000

Under Situation II – ₹ 30,000

Capital Structure :

Financial Plan	Plan A	Plan B
Equity	20,000	30,000
Debt @ 20%	<u>20,000</u>	<u>10,000</u>
Total	40,000	40,000

OR

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The capital structure of XYZ Ltd. consist of equity share capital of ₹ 15,00,000 (shares of ₹ 100 par value) and ₹ 12,00,000, 10% debentures. The unit sales increased by 30% from 1,00,000 to 1,30,000 units. The selling price is ₹ 10 per unit, variable cost amount to ₹ 5 per unit and fixed expenses amount to ₹ 2,50,000. Tax rate is assumed to be 40%.

Calculate :

- (i) % increase in EPS
 - (ii) Degree of operating leverage at 1,00,000 and 1,30,000 units.
 - (iii) Degree of financial leverage at 1,00,000 and 1,30,000 units.
- (b) ABC Limited is planning to raise ₹ 15,00,000 to finance a project following options are available :
- Plan 1 : 15,000 equity shares or 7,500 equity shares and 7,500, 10% debentures.
- Plan 2 : 15,000 equity shares or 10,000 equity shares and 5,000 12% preference shares.
- Plan 3 : 15,000 equity shares or 5,000 equity shares 5,000, 12% preference shares and 5,000 10% debentures.

Assume corporate tax rate to be 55% and par value of all shares and debentures to be ₹ 100 each. Calculate in difference point between :

Plan 1 and 2, Plan 2 and 3 and Plan 1 and 3.

OR

XYZ limited plans to expand its business by investing ₹ 30,00,000. Following investment options are available :

- Plan 1 : Either equity capital for ₹ 30,00,000 OR ₹ 15,00,000, 10% debentures and ₹ 15,00,000 equity.
- Plan 2 : Either equity capital of ₹ 30,00,000 OR 13% preference shares of ₹ 10,00,000 and ₹ 20,00,000 equity.
- Plan 3 : Either equity share capital of ₹ 20,00,000 and 10% debentures of ₹ 10,00,000 OR 13% preference share capital of ₹ 10,00,000, 10% debentures of ₹ 8,00,000 and ₹ 12,00,000 equity.

Calculate indifference point for each financial plan individually. Assume 35% tax rate and face value of equity shares as ₹ 100.

4. (a) What is Capital Budgeting ? Discuss the types of Capital Budgeting decisions. 7

OR

Explain payback period and average rate of return as traditional capital budgeting appraisal techniques.

- (b) ABC Limited is considering purchase of a new plant costing ₹ 1,50,000. The company estimates a maintenance cost of ₹ 10,000 each year. The working life of plant is estimated to be 6 years. Its scrap value is estimated to be ₹ 30,000. The cash flow before depreciation, taxes and maintenance are as follows :

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Year	₹
1	40,000
2	50,000
3	60,000
4	70,000
5	80,000
6	90,000

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

OR

- (b) Rank project A and B using IRR criterion.

Project	A	B
Initial Investment	2,00,000	2,00,000
CFAT year		
1	40,000	30,000
2	50,000	60,000
3	60,000	40,000
4	70,000	80,000
5	80,000	90,000

5. Do as directed : (Each answer carries one mark)

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- (1) Name the four executive finance functions.
- (2) _____ analysis classifies inventory into 3 categories as per their value.
- (3) The point of inventory at which order should be placed to procure new inventory is known as _____.
- (4) Name any one motive for holding cash.
- (5) Shareholders' Wealth Maximisation can be achieved by combination of _____ (low/high) operating leverage and _____ (high/low) financial leverage.
- (6) The rate of return of project at which NPV is equal to 0 is called _____.
- (7) _____ is the best decision technique for mutually exclusive projects.
- (8) _____ and _____ crucial roles of a financial manager in large organizations.
- (9) The difference between current assets and current liabilities is known as _____ working capital. (gross/net)