

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.

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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 31<sup>st</sup> 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.

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

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- (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 :

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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 Value 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)