

MI-114**December-2016****B.B.A., Sem.-III****CC-202 : Fundamental of Financial Management****Time : 3 Hours]****[Max. Marks : 70**

1. (a) "Shareholders' wealth maximization is a better goal of financial management as compared to profit maximization." Comment. 7

OR

Explain the various executive and routine finance functions.

- (b) Two partners A and B together invest ₹ 30,000 at 8% compounded annually. The amount A gets in 3 years is same as what B gets in 5 years. Determine the share of A and B in the total amount. 7

OR

Mr. X borrowed ₹ 2,00,000 to be paid in 5 equal annual installments. The rate of interest is 12%. Prepare a loan amortization schedule.

2. (a) Explain the various factors affecting working capital requirements. 7

OR

Discuss the various credit policy variables.

- (b) A company requires 90,000 units of a certain component annually. The cost per unit is ₹ 3. The cost per purchase order is ₹ 300 and the inventory carrying cost is ₹ 6 per unit per year. Calculate EOQ. What should the firm do if the supplier offers discount as below : 7

Order Quantity in Units	Discount in %
4,500	3%
6,000	4%

OR

Prepare a cash budget for 3 months ending March from following data :

Month	Sales	Purchase	Wages
December	2,00,000	2,00,000	27,000
January	2,50,000	3,00,000	30,000
February	1,50,000	2,50,000	33,000
March	1,60,000	2,50,000	36,000

Other Information :

- (1) 50% of sales is realized in the current month and 50% in the next month.
- (2) Purchases have a credit period of one month.
- (3) Wages are paid one-third month late.
- (4) Cash at the beginning of January expected to be ₹ 20,000.
- (5) Vehicle to be purchased in March for ₹ 50,000.

3. (a) Calculate operating, financial and combined leverage under situation I and II and financial plans A and B.

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Sales 4,000 units.

Selling price : ₹ 30 per unit

Variable cost : ₹ 15 per unit

Fixed cost : Under situation I : ₹ 20,000

Under situation II : ₹ 30,000.

Capital Structure :

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

OR

The capital structure of ABC limited consists of equity share capital of ₹ 10,00,000 (Shares of ₹ 100 par value) and ₹ 10,00,000 10% debentures.

The unit sales increased from 1,00,000 to 1,40,000 units. Selling price per unit is ₹ 10, variable costs amount to ₹ 5 per unit and fixed expenses amount to ₹ 2,00,000. Tax rate is 35%. Calculate :

- % increase in EPS due to increase in sales.
- Operating, financial and combined leverage at 1,00,000 and 1,40,000 units.

- (b) A Limited is considering a capital structure of ₹ 15,00,000 for which following options are available. 7

Calculate indifference level of EBIT between

- (a) Plan 1 and 2
(b) Plan 1 and 3

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 securities to be ₹ 10 each.

OR

The finance manager of a company has proposed following plans to finance ₹ 30,00,000 for projects.

Plan A : Equity capital of ₹ 30,00,000 or ₹ 15,00,000 10% debentures and ₹ 15,00,000 equity.

Plan B : Equity capital of ₹ 30,00,000 or 13% preference shares of ₹ 10,00,000 and ₹ 20,00,000 equity.

Assume 35% tax rate and face value of equity shares as ₹ 100. Calculate in difference point for Plan A and Plan B.

4. (a) What is capital budgeting ? Explain the types of capital budgeting decisions. 7

OR

Explain the traditional capital budgeting appraisal techniques in brief.

- (b) A company is considering an investment of ₹ 6,00,000. Life of project is expected to be 5 years with a salvage value of ₹ 1,00,000. Tax rate is 50%. Depreciation is straight line method. Estimated cash flows before depreciation and taxes are as follows :

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Year	CF BD T
1	1,00,000
2	1,40,000
3	2,00,000
4	1,50,000
5	1,40,000

Calculate pay-back period, net present value and profitability index at 10%.

OR

A project requires an initial investment of ₹ 5,00,000. Cash flow after tax for its estimated life of 4 years are as follows :

Year	CFAT
1	1,00,000
2	2,00,000
3	1,50,000
4	1,60,000

Calculate Internal Rate of Return. If required rate of return is 15%, state whether the project should be accepted or not ?

5. Do as directed :

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- (a) Calculate interest cost from seller's point of view for following credit terms :

(i) $\frac{3}{20}$ net, 80

(ii) $\frac{2}{5}$ net, 25

- (b) Name the two important financial roles in an organization.
 (c) _____ analysis classifies stock into 3 categories as per their value.
 (d) Name any 3 motives for holding cash in business.
 (e) Equal payments over equal time-period amount to _____.
 (f) Level of EBIT of a firm which is just enough to cover its fixed charges is known as _____.
 (g) The only capital budgeting appraisal technique that uses PAT for calculations is _____.
 (h) The rate of a project which gives zero NPV is known as _____.
 (i) The product of _____ and _____ gives the value of combined leverage.