

Seat No. : _____

DC-103

December-2021

B.B.A., Sem.-III

CC-202 : Fundamentals of Financial Management

Time : 2 Hours]

[Max. Marks : 50

- Instructions :
- (1) All questions in Section - I carry equal marks.
 - (2) Attempt any Two questions in Section - I.
 - (3) It is compulsory to show calculations for numericals.
 - (4) Time Value Tables will be provided on request.
 - (5) Question - 5 of Section - II is compulsory.

Section - I

1. (a) Explain how Shareholders' Wealth Maximisation is a better objective of Financial Management as compared to Profit Maximisation. 10
(b) Mr. A borrows from a commercial bank ₹ 20,00,000 @ 12% per annum to be repaid in 5 equal annual installments. Prepare a loan amortization schedule. 10
2. (a) XYZ Limited requires 90,000 units of a machine annually. Cost per unit is ₹ 1,000. Ordering cost is ₹ 1,600 per order and Carrying cost is 20%. Calculate Economic Order Quantity, Number of orders and new Economic Order Quantity if cost per unit becomes 4 times the original. 10
(b) Prepare cash budget for 3 months from April to June from the following : 10

Month	Sales (₹)	Raw material (₹)	Wages (₹)
March	3,00,000	1,90,000	50,000
April	3,50,000	2,10,000	56,000
May	3,20,000	4,00,000	60,000
June	2,00,000	2,00,000	52,000

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Other information :

- Cash balance on 31st March is ₹ 20,000.
- 30% sales are for cash and remaining for a credit of one month.
- Raw material payment is delayed by one month and wages by half month.
- Building purchased in May for ₹ 3,00,000 payable 40% in same month and balance after 3 months.

3. (a) A company's capital structure consists of ordinary share capital of ₹ 20,00,000 (Shares of ₹ 100 par value) and ₹ 20,00,000 @ 10% debt. Selling price of product is ₹ 10 per unit, variable cost ₹ 5 per unit, fixed expenses amount to ₹ 2,00,000. Tax rate is 35%. Calculate
- (i) % increase in EPS, if sales increase from 2,00,000 to 2,20,000 units.
- (ii) Operating, Financial and Combined leverage at 2,00,000 and 2,20,000 units.
- (b) Financial Manager of ABC Limited has formulated following various plans to finance ₹ 50,00,000 and to implement new projects with the money.
- (i) Either equity capital of ₹ 50,00,000 OR 13% preference shares of ₹ 15,00,000 and ₹ 35,00,000 equity.
- (ii) Either equity share capital of ₹ 35,00,000 and 10% debentures of ₹ 15,00,000 OR 13% preference capital of ₹ 15,00,000; 10% debentures of ₹ 15,00,000 and ₹ 10,00,000 equity.

Calculate indifference point individually for each financial plan, assuming 40 per cent tax rate and the face value of equity shares to be ₹ 100 each.

4. (a) A company is considering an investment of ₹ 7,00,000. Life of project is expected to be 5 years with a salvage value of ₹ 2,00,000. Tax rate is 50%, depreciation is SLM. If estimated Cash Flows Before Depreciation and Taxes (CFBDT) are as under, calculate Pay-back Period and Net Present Value, given the opportunity cost of capital is 12%. 10

Year	CFBDT (₹)
1	1,10,000
2	1,50,000
3	2,10,000
4	1,70,000
5	1,50,000

- (b) For an investment of ₹ 2,40,000; Cash flows for five years are as follows.

Year	Cash flows (₹)
1	40,000
2	60,000
3	80,000
4	90,000
5	60,000

Calculate Internal Rate of Return and suggest whether the investment is worthy or not; if the threshold rate of return is 9%.

Section - II

5. Attempt any ten out of fifteen questions in this section : 10
- (1) Liquidity decisions are also known as ___ management decisions, (working capital/ investment/procurement)
 - (2) All modern capital budgeting techniques use _____ for calculations. (CFAT/PAT)
 - (3) In organizing finance function, two important financial roles are _____ and _____. (Treasurer and Controller / Debtor and Creditor)
 - (4) The level of EBIT at which EPS for two alternative financial plans remains the same is referred to as _____. (financial break-even point/indifference point)

- (5) When compounding is done for shorter periods, the rate of interest is known as _____ rate of interest. (nominal/effective)
- (6) Under the _____ decisions, all proposals which yield a rate of return greater than certain required rate of return or cost of capital are accepted. (mutually exclusive/accept-reject/capital rationing)
- (7) The present value of ₹ 300 perpetuity at 10% annual rate of interest is _____.
- (8) The duration required to convert resources into inventories, inventories into sales and sales into cash is known as _____. (operating cycle/indifference cycle)
- (9) A machine costs ₹ 4,00,000. At the end of its effective life of 8 years, it will generate a scrap value of ₹ 40,000. The yearly depreciation on straight line method is ₹ _____.
- (10) Re-order point under certainty takes into account safety stock for calculations. (True/False)
- (11) There is a possibility of conflict in results of NPV and IRR; if two projects have different effective lives. (True/False)
- (12) 3/15 net 45 means _____ % cash discount will be given in 15 days. (3, 12, 15)
- (13) If equity of a business is ₹ 50,00,000; debt-equity ratio is 4:1, Interest rate is 15% and EBIT is ₹ 45,00,000; financial leverage is _____. (1.5/3)
- (14) Calculate Interest Cost from seller's point of view for the following credit term: '3/20 net, 80'.
- (15) _____ leverage may be defined as the firm's ability to use fixed financial charges to magnify the effects of changes in EBIT on changes in EPS. (operating/combined/financial)
