# DB-103

## December-2022

### B.B.A., Sem.-III

### CC-202 : Fundamentals of Financial Management

Time : 2½ Hours]

[Max. Marks : 70

1. (A) Explain the concept of "Profit Maximization" and "Wealth Maximization". Which of these do you think is a better operational guide for finance manager ? **(7)**

(B) Mr. Prakash has borrowed ₹ 5,00,000 to be paid in 5 equal annual installments. The rate of interest is 9%. Prepare a loan amortization schedule. **(7)**

**OR**

(A) Define Financial Management. Describe its main functions. **(7)**

(B) A man wants to invest ₹ 50,000 for 4 years. He may invest the amount at 9% per annum quarterly compounded or he may invest it at 10% per annum yearly compounded. Which investment will give him better return and how much ? **(7)**

2. (A) Prepare a cash budget for 3 month ending March from following data : **(7)**

| Month | Sales (₹) | Purchases (₹) | Wages (₹) |
|---|---|---|---|
| December | 4,00,000 | 4,00,000 | 54,000 |
| January | 8,00,000 | 6,00,000 | 60,000 |
| February | 7,00,000 | 5,00,000 | 66,000 |
| March | 7,20,000 | 5,00,000 | 72,000 |

**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 ₹ 40,000.

(5) Vehicle to be purchases in March for ₹ 1,00,000.

(B) What is Working Capital ? Discuss the factors affecting Working Capital. **(7)**

**OR**

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(A) Parth Company purchases 2000 units of a particular item per year at an unit cost of ₹ 20, the ordering cost per order is ₹ 50 and the inventory carrying cost is 25%. Find the optimal order quantity and minimum total cost including purchase cost.

If a 5% discount is offered by the supplier for purchase in lot of 500 or more should the Parth Company accept the proposal ? **(7)**

(B) Explain the credit policy variables with respect to receivables management. **(7)**

3. (A) Astha Limited is setting up a project with a capital outlay of ₹ 60,00,000. It has two alternatives in financing the project cost. **(7)**

Plan 1 : 100% equity finance by issuing equity shares of ₹ 10 each.

Plan 2 : Debt-equity ratio 2:1 (equity shares will be of ₹ 10 each)

The rate of interest payable on the debt is 18% p.a. The corporate tax rate is 40%. Calculate the indifference point between the two alternative methods of financing.

(B) Following details relate to Arush Ltd. : **(7)**

| Equity share capital (each of ₹ 10) | ₹ 2,00,000 |
| 10% Debentures | ₹ 4,00,000 |
| The following information relate to 2021-22 : | |
| Sales | ₹ 10,00,000 |
| Variable Cost | ₹ 5,80,000 |
| Fixed Costs (Excluding interest and tax) | ₹ 2,80,000 |
| Tax rate | 40% |

Answer the following :

(1) Find out the Earning per Share (EPS).

(2) Calculate the all three types of Leverage.

**OR**

(A) Calculate Operating Leverage, Financial Leverage and Combined Leverage from the following data under Situation I and Situation II and Financial Plan A and B. **(7)**

| Installed Capacity | 10,000 units |
| Actual Production & Sales | 60% of capacity |
| Selling price | ₹ 40 per unit |
| Variable Cost | ₹ 25 per unit |
| **Fixed Cost :** | |
| Under Situation I | ₹ 20,000 |
| Under Situation II | ₹ 30,000 |

**Capital Structure :**

|  | Financial Plan | |
|---|---|---|
|  | A (₹) | B (₹) |
| Equity | 15,000 | 20,000 |
| Debt (Rate of Interest at 20%) | 15,000 | 10,000 |
|  | **30,000** | **30,000** |

(B) Give the meaning and formula of Operating Leverage and Financial Leverage. Also explain the concept and meaning of Trading on Equity. **(7)**

4. (A) Parshva Co. Ltd. is considering to purchase a machine costing ₹ 12,00,000. The estimated life of each machine is 5 years. The scrap value is ₹ 60,000. The company's required rate of return is 12%. The rate of tax is 50%. The expected earnings before depreciation and taxes of machine is as follows : **(7)**

| Year | ₹ |
|---|---|
| 1 | 7,80,000 |
| 2 | 6,00,000 |
| 3 | 4,80,000 |
| 4 | 4,20,000 |
| 5 | 3,00,000 |

The present value of ₹ 1 at the discount rate of 12% for five year 0.893, 0.797, 0.712, 0.636, 0.567.

**Calculate :**

(1) Net Present Value

(2) Profitability Index

(B) A project requires an initial investment of ₹ 5,00,000. Cash flow after tax for its estimated life of 5 years are as follows : **(7)**

| Year | CFAT (₹) |
|---|---|
| 1 | 1,00,000 |
| 2 | 2,00,000 |
| 3 | 1,50,000 |
| 4 | 1,60,000 |
| 5 | 1,20,000 |

Calculate Internal Rate of Return. If required rate of return is 10%, state whether the project should be accepted or not ?

**OR**

(A) What is Capital Budgeting ? Discuss the types of capital budgeting decisions. **(7)**

(B) A company is considering two projects A and B, each of which requires an initial outlay of ₹ 100 Lakhs. The expected cash inflows from these projects are as follows : **(7)**

| | (₹ in Lakhs) | |
|---|---|---|
| **Year** | **Project A** | **Project B** |
| 1 | 22 | 75 |
| 2 | 38 | 44 |
| 3 | 64 | 36 |
| 4 | 74 | 28 |

If the two projects are mutually exclusive and the cost of capital is 12%, which projects should be chosen by the company according to NPV Method ?

The present value of ₹ 1 at the discount rate of 12% for five year 0.893, 0.797, 0.712, 0.636, 0.567.

**(14)**

5. Do as directed (Attempt any 7 out of 12) :

 (1) _____ means equal amount of cash flows at equal time intervals.

 (2) _____ and _____ are important roles of a Financial Manager in large organizations.

 (3) Find the present value of perpetuity of ₹ 1200 received at the end of every year at 9% discount rate.

 (4) _____ Working Capital is that part of working capital which is needed to meet the seasonal demands and special needs. (Initial, Regular, Variable, Permanent)

 (5) Name any two motives for holding cash.

 (6) Give the formula of EOQ (Economic Order Quantity).

 (7) The leverage associated with investment activities is referred to as _____ leverage.

 (8) The product of _____ and _____ gives the value of combined leverage.

 (9) Trading on equity means _____ financial leverage. (Equal, Higher, Favourable, Unfavourable)

 (10) The only capital budgeting appraisal techniques which was PAT (Profit After Tax) as a measure is known as _____ .

 (11) The rate of return of project at which NPV is equal to zero is called _____ .

 (12) _____ method ignores cash generation beyond period when cash inflow exceeds investment. (Net Present Value, ARR, Payback Period, IRR)

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DB-103

4