Seat No. : _____

DA-101

December-2023

BBA., Sem.-III

CC-202 : Fundamentals of Financial Management

Time : 2½ Hours] [Max. Marks : 70

Instructions : (1) Show calculations where required.
(2) Time value tables will be provided on request.

1. (A) Define financial management. Discuss how shareholders' wealth maximisation is considered a better goal of financial management as compared to profit maximisation. 7

1. (B) Two partners A and B together lend ₹ 3,00,000 at 8% compounded annually. The amount A gets in 5 years is the same as what B gets at the end of 7 years. Determine the share of A and B in the total amount. 7

OR

1. (A) Mr. X has borrowed ₹ 4,00,000 to be paid in 5 equal annual installments of principal plus interest. The annual rate of interest is 9%. Prepare a loan amortization schedule. 7

1. (B) ₹ 8,000 is invested for 3 years at 12% per annum. What sum will the investor receive if : 7

(a) Compounding is done annually

(b) Compounding is done semi-annually

(c) Compounding is done quarterly

2. (A) What is working capital management ? Explain the dangers of excess and inadequate working capital. 7

2. (B) Discuss the various credit policy variables in brief. 7

OR

2. (A) From the following information, prepare a cash budget for 3 months from April to June : 7

Month	Sales (₹)	Purchases (₹)	Wages (₹)	Office Expenses (₹)	Selling Expenses (₹)
February	2,60,000	1, 14,000	19,000	16,000	14,600
March	2,34,000	1,38,000	19,400	16,600	15,000
April	2,80,000	1,34,000	18,800	16,400	15,400
May	2,32,000	1,08,000	20,000	16,600	15,200
June	2,60,000	1,19,000	20,000	16,200	14,800

Additional Information :

- Period of credit allowed by suppliers is 2 months and to customers is one month.
- Plant worth ₹ 80,000 to be purchased in June, 60% payable immediately and remaining in two equal installments in subsequent months.
- Advance payment of tax ₹ 20,000 due in April.
- Bonus payable ₹ 15,000 in June.
- Delay in payment of wages is one month and for selling expenses is ½ month.
- Expected cash balance on 1st April is ₹ 40,000.

2. (B) XYZ Limited requires 10,00,000 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 and number of orders. If the cost per unit becomes four times, what is the new economic order quantity and number of orders ? 7

3. Finance Manager of MNO Limited has formulated following various plans to finance ₹ 60,00,000 and to implement new projects with the money : 14

(i) 13% preference shares of ₹ 25,00,000 and ₹ 35,00,000 equity.

(ii) Equity of ₹ 45,00,000 and 10% debentures of ₹ 15,00,000.

(iii) 13% preference capital of ₹ 20,00,000; 10% debentures of ₹ 15,00,000 and equity of ₹ 25,00,000.

Calculate indifference point between plan i and plan ii
plan ii and plan iii and
plan i and plan iii

Also calculate financial break-even point for each plan and Earnings Per Share (EPS) for each plan if expected EBIT is ₹ 6,00,000. Assume 35% tax rate and the face value of equity shares to be ₹ 100 each.

OR

3. (A) ABC Limited has the following Balance Sheet and Income statement information : 7

Balance Sheet as of March 31st			
Liabilities	**Amount in ₹**	**Assets**	**Amount in ₹**
Equity Capital (₹ 100 per share)	12,00,000	Net Fixed Assets	16,00,000
10 % Debt	7,00,000	Current Assets	10,00,000
Retained Earnings	4,50,000		
Current Liabilities	2,50,000		
Total	**26,00,000**	**Total**	**26,00,000**

The unit sales increased by 30% from 10,000 to 13,000 units. The selling price is ₹ 100 per unit, variable costs amount to ₹ 60 per unit and fixed expenses amount to ₹ 2,00,000. The tax rate is assumed to be 35%.

Calculate : (a) The percentage increase in EPS when sales increased by 30%.

(b) Operating, financial and combined leverage at 10,000 and 13,000 units.

3. (B) Calculate operating, financial and combined leverage under Situations I and II and Financial Plans A and B. Also mention the combinations of operating and financial leverage that provide highest and lowest values. 7

Actual Production & Sales: 6,000 units

Selling Price : ₹ 30 per unit

Variable Cost : ₹ 15 per unit

Fixed Cost : Under Situation I – ₹ 30,000

Under Situation II – ₹ 40,000

Capital Structure	Financial Plan A	Financial Plan B
Equity	1,00,000	1,50,000
Debt @ 20%	1,00,000	50,000
Total	2,00,000	2,00,000

4. (A) Define capital budgeting and explain the various types of capital budgeting decisions. 7

4. (B) Discuss pay-back period as a method of appraising projects. 7

OR

4. (A) ABC Limited is considering purchase of a new plant at a cost of ₹ 2,00,000. The company estimates a maintenance cost of ₹ 10,000 each year of its operation. The working life of plant is estimated to be 6 years. Its scrap value is estimated at ₹ 20,000. 7

The cash flows (before depreciation, taxes and maintenance) are as follows :

Year	1	2	3	4	5	6
₹	40,000	48,000	79,000	65,000	50,000	55,000

The company charges depreciation on SLM basis. Assuming discount rate of 10% and tax rate of 50%, state whether this project should be accepted or not; using NPV method.

4. (B) Initial investment in a project is ₹ 1,00,000. Cash flows for five years are as under : 7

Year	CFAT
1	25,000
2	35,000
3	45,000
4	42,000
5	39,000

Calculate IRR. If the threshold rate of return is 20%, should the investment be made or not ?

5. Do as directed. (Attempt any **seven** out of twelve - show calculations) 14

(1) If nominal rate of interest is 36% and compounding is done quarterly, the effective rate of interest is _____.(4%, 6%, 9%)

(2) In organizing finance function, two important financial roles are _____ and _____. (Treasurer and Controller / Debtor and Creditor)

(3) If A invests ₹ 4,000 in a bank at 12% annual rate of Interest for 3 years, the amount that he receives at the end of 3 years is _____.

(4) Define ABC Analysis in two statements.

(5) 4/20 net 50 means _____ % cash discount will be given for payment within 20 days. (4, 16, 30)

(6) Write formula for Re-order point under certainty and Re-order point under uncertainty.

(7) If equity of a business is ₹ 60,00,000; debt-equity ratio is 3:1, interest rate is 10% and EBIT is ₹ 30,00,00; financial leverage is _____.

(8) If sales are ₹ 2,00,000; variable cost is 40% and fixed costs amount to ₹ 50,000 operating leverage is _____.

(9) A business plans to raise new capital of ₹ 20,00,000 in the ratio of 3 : 1 : 1 with equity, 12% preference shares and 14% debentures. The debenture interest in this case is ₹ _____.

(10) In case of a conflicting decision between NPV and IRR for project selection, the decision of IRR should be followed. (True/False)

(11) The duration required to convert resources into inventories, inventories into sales and sales into cash is known as _____. (operating cycle / indifference cycle)

(12) Profitability Index for project is 1.036 and investment for the project is ₹ 2,00,000; present value of cash inflows is ₹ _____.