

**PARUL UNIVERSITY**  
**FACULTY OF MANAGEMENT**  
**BBA Winter 2022-2320 Examination**

Semester: 03

Subject Code: 06101203

Subject Name: Financial Management- I

Date: 27/09/2022

Time: 10:30 am to 01:00 pm

Total Marks: 60

**Instructions**

1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

**Q.1 Do as Directed.****A). Multiple choice type questions/Fill in the blanks. (Each of 1 mark)****(05)**

1. Inventory is listed as a part of current assets. Stock or inventory in an organization means \_\_\_\_\_.
  - a) Goods that are readily available for sale
  - b) All the raw material, Semi finished and the finished goods in the organization
  - c) All the assets available for sale
  - d) Goods that can be sold within a short span of time
- 2 Accounts payable, accruals and notes payable are listed on balance sheet as \_\_\_\_\_?
  - a) Accrued liabilities
  - b) Accumulated liabilities
  - c) Current liabilities
  - d) Non-current liabilities
- 3 Traditional approach confines finance only to \_\_\_\_\_ funds.
  - a) raising
  - b) utilizing
  - c) mobilizing
  - d) financing
- 4 The concept of Financial management is \_\_\_\_\_.
  - a) Profit maximization
  - b) Organization of funds
  - c) All features of obtaining and using financial resources for company operations
  - d) Effective Management of every company
- 5 Which of the following is not applied in capital budgeting?
  - a) Cash flows be calculated in incremental terms
  - b) All accrued costs and revenues be incorporated
  - c) All costs and benefits are measured on cash basis
  - d) All benefits are measured on after-tax basis.

**B). Define the following. (Each of 1 mark)****(05)**

1. Treasurer
2. Compounding
3. Reorder point
4. Annuity
5. Profitability Index

**C). Direct questions. (Each of 1 mark)****(05)**

1. List down any four functions of financial management.
2. What is Effective rate of interest?
3. List down the techniques of managing inventory.
4. Provide formula : Combined Leverage
5. State the discounting techniques of capital budgeting.

**Q.2 Answer the following questions.**

“Financial Management is planning, directing, monitoring, organizing, and controlling of the

- A). monetary resources of an organization.”- Evaluate this statement using scope of financial management.**

**(07)**

**B).** What do you mean by Cash budget? Explain Importance of Cash Budget in Organization in brief. (08)

**Q.3** Answer the following questions.

Jambo Chemicals Ltd. is newly formed company. **The promoters has planned two different cost structures:** (i) Variable cost 50%, Fixed Cost Rs.30 lacs or (ii) Variable cost 60%, Fixed cost Rs.20 lacs. Projected average sales Rs.150 lacs. The pessimistic projection of sales is Rs.120 lacs and optimistic projection is Rs.180 lacs. Its total investment has been worked out as Rs.150 lacs of which Rs.120 lacs is in fixed assets and Rs.30 lacs for working capital.

**The company is considering two financing alternatives:** (i) Equity Rs.100 lacs and Debt Rs.50 Lacs, Debt – equity ratio of 1:2 or (ii) Equity Rs.50 lacs, Debt Rs.100 lacs, Debt – Equity ratio of 2:1.

**A).** For the first alternative, interest rate is worked out to be 8% and for the second alternative it is 10%. Tax Rate is 35% and surcharge 5%. Depreciation component in the fixed costs is Rs.6 lacs. (07)

Since there is now-a-days a provision for deferred tax liability is to be created as per Accounting Standard -22, there is no need to take care of tax depreciation. The company wants to carry out the analysis using accounting depreciation and tax benefit arising out of that.

Find out degree of operating leverage, financial leverage and combined leverage for the possible alternatives. Work out PAT, EPS and expected share value for these alternatives. Take that market return is 14%, Risk free rate 6%, Unlevered beta of the company is 0.60.

A project requires an initial investment of Rs.225,000 and is expected to generate the following net cash inflows:

Year 1: Rs.95,000
Year 2: Rs.80,000
Year 3: Rs.60,000
Year 4: Rs.55,000

**B).** (08)

Calculate net present value of the project if the minimum desired rate of return is 12%. (PV Factors @ 12%, 0.8929, 0.7972, 0.7118, 0.6355 for four years respectively)

**Q.4** Attempt any two questions. (Each of 7.5 mark) (15)

- Discuss about challenges firm has to face because of holding excessive and inadequate working capital in business.
- Consider an annuity consisting of three cash flows of Rs.2,000 each. Assume a 4% interest rate. What is the present value of the annuity if the first cash flow occurs: (PVA Factors @ 4%, 0.9615, 1.8861, 2.7751, 3.6299, for four years respectively)
  - Today
  - one year from today
  - two years from today
  - three years from today
  - four years from today

3. Find out the combined leverage with the help of given information of following Companies :

Particulars	Company A	Company B	Company C	Company D
<b>Sales</b>	2, 00,000	1, 50, 200	4, 50, 000	4, 10,000
<b>Variable cost</b>	20, 000	----	50, 000	25, 600
<b>Fixed cost</b>	10, 200	30, 000	10, 000	15, 000
<b>Degree of financial leverage</b>	1.32	1.13	1.1	1.2

4. The project of Zanitha Ltd. has the following cash flow profile.  
Cash outflow of Rs.1,00,000 which is an up-front investment in both the project.  
Project A) Years 1 – 6: Cash inflow of Rs.5,000 per year  
Project B) Years 1 – 6: Cash inflow of Rs.30,000 per year due to new revenue streams. No further inflows or outflows after year 6. Discount Rate for both the project is 10%.  
Calculate Net present value. (PV Factors @ 10%, 0.909, 0.826, 0.751, 0.683, 0.620, 0.564, for six years respectively)