

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
BBA Winter 2019- 20 Examination

Semester: 3
Subject Code:06101203
Subject Name: Financial Management-I

Date:23/11/2019
Time:2:00 pm to 4:30 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 questions. (Each of 1 mark)****(05)**

1. An Annuity is _____.
 a. a series of unequal but consecutive payment b. a series of equal but consecutive payment
 c. a series of equal but non-consecutive d. more than one payment
2. From the following which can not be included in inventory _____.
 a. Currency b. Finished Goods
 c. Scrap of material d. Work In progress
3. The leverage associated with financing activities is called _____ leverage.
 a. Financial b. Operating
 c. Combined d. Assets
4. _____ varies inversely with profitability.
 a. Liquidity b. Risk
 c. Liabilities d. Financing
5. In which method it is assumed that each cash inflow received is reinvested in another business at certain rate of interest. ?
 a. Payback Method b. Terminal Value method
 c. ARR method d. NPV method

B) Define the following Terms :**(05)**

1. Perpetuity
2. Capital Recovery Factor
3. Optimum Cash Policy
4. IRR
5. Discounting Factor

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

1. Provide Formula : Effective Rate of Return.
2. State various features of working capital management
3. List down motives of holding cash.
4. Which are the non discounting techniques of capital budgeting.
5. Provide formula : Accounting Rate of Return

Q.2 Answer the following questions.

- A)** List down all short term and long term functions of Financial Management and explain any three in detail..

(07)

B) From following information prepared a monthly cash budget for 3 months ending on 31st March: (08)

- Sales is expected to be Rs. 1,50,000, Rs. 1,00,000, Rs. 1,20,000 and Rs. 1,10,000 in four months from December to March. 50% of sales is realised in same month and remaining 50% is realised in next month.
- Purchases for December, January, February and March are Rs. 80,000, Rs. 60,000, Rs. 65,000 and Rs. 70,000 respectively. 40% is paid in the next month.
- Rent per month Rs. 4,000.
- Cash expenses Rs. 12,000 per month.
- Wages for December, January, February, March are Rs. 10,000, Rs. 11,000, Rs. 12,000 and Rs. 13,000 respectively. Lag in payment of wages is ½ month.
- Rs. 35,000 is paid for the purchase of vehicle in March.
- Present cash balance is Rs. 15,000.

Q.3 Answer the following questions.

A). Suraj Pharma Ltd. has supplied its balance sheet which is as follows:

Balance Sheet			
Liabilities	Amount(in Rs.)	Assets	Amount(in Rs.)
Equity Capital(Rs. 10 per share)	60,000	Net Fixed Assets	1,50,000
10% long term debt	80,000	Current Assets	50,000
Retained Earnings	20,000		
Current Liabilities	40,000		
	2,00,000		2,00,000

(07)

The company's total assets turnover is 3. Fixed Operating Cost are Rs. 1,00,000 and Variable cost is 40% of sales. The income tax rate is 50%.

- Calculate for the company all three types of leverages.
- Determine the likely level of EBIT if EPS is
a. Rs. 1 b. Rs. 3 and c. zero.

B).

The finance director of Earth Ltd. is considering following two projects for investment purpose. Cash Inflow and Cash Outflow of the Sunlight Ltd. and Moonlight Ltd. is given Below. Cost of Capital to be considered is 10%.

Year	Sunlight Ltd.	Moon Light Ltd.
0	(2,00,000)	(2,00,000)
1	35,000	2,18,000
2	80,000	10,000
3	90,000	10,000
4	75,000	4,000
5	20,000	3,000

(08)

- Evaluate above two projects using NPV and IRR methods.
- State with reasons, which project would you recommend to finance manager.

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

- Define working capital and explain various factors affecting Working capital of business.
- Mr. Ramashankar has borrowed Rs. 2,50,000 from commercial bank for 10 years. If rate of interest is 10% p.a. and discount rate is 12%. Prepare Loan Amortization schedule for 5 years.

3. Define Financial Break Even and with the help of diagram represent indifference Point.
4. Ayodhya Plastic Company considers to purchase one of the following machines.
Cost of Capital is 10%.

	Machine A	Machine B
Life	3 years	3 Years
Capital Outlay	Rs. 1,00,000	Rs. 1,00,000
Earning (After Tax)		
First Year	Rs. 80,000	Rs. 20,000
Second Year	Rs. 60,000	Rs. 70,000
Third Year	Rs. 40,000	Rs. 1,00,000

Calculate profitability of both the machinery using following techniques:

- a. Pay -Back Method
- b. Average Rate of Return Method
- c. Present value method .