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PARUL UNIVERSITY
FACULTY OF MANAGEMENT
BBA, Winter 2017-18 Examination
Semester: 3
Date: 20-12-2017
Subject Code: 06101203
Time: 02:00PM to 04:30PM
Subject Name: Financial Management - I
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 (Each of 1 mark)

1. Project X requires an outlay of Rs.50,000 and yields an annual cash inflow of Rs. 12,500 for 7 years. The payback period for the project will be $\qquad$ -.
a) 3 years
b) 4 years and 3 months
c) 4 years
d) 3.5 years
2. Hemang had taken freehold land on lease enjoyable in perpetuity. If the rent is Rs. 60,000 p.a. and the rate of interest is $8 \%$. p.a. What will be the value of perpetuity.
a)Rs.7,50000
c) Rs. $5,60,000$
b)Rs. 7,65,000
d)Rs. 9,60,000
3. The quantity being ordered at which the ordering cost and inventory carrying cost will be minimum is called $\qquad$ _.
a) Minimum Level
c) Maximum Level
b) Economic Lot size/(EOQ)
d) Ordering Quantity
4. If NPV is positive then
a) Profitability Index $>1$
c) Profitability Index <1
b) Profitability Index $=0$
d) all of the above
5. If Operating Leverage is 1.5 and Financial Leverage is 1.33 then combined leverage will be
$\qquad$ -.
a) 1.95
b) 1.90
c) 2.10
d) 1.995
B).Define the following. (Each of 1 mark)
6. Annuity
7. EOQ
8. Operating Cycle
9. Financial BEP
10. Net Present Value
C).Direct questions.(Each of 1 mark)
11. Give formula : a. Financial Leverage b. Combined Leverage
12. List down the objectives of Financial management.
13. Which are the motives of holding cash?
14. What is indifference point?
15. List down the techniques of capital budgeting.

## Q. 2 Answer the following Questions :

1. Kunal borrows Rs. 80,000 for purchasing furniture at interest rate $12 \%$. Discount rate is also $12 \%$. The loan is to be repaid in 5 equal installments, payable at the end of each year. Prepare loan amortization schedule.

2 Konark Ltd. has provided following information pertaining to purchase, sales and expenses.
Prepare Cash Budget starting from $1^{\text {st }}$ July to $31^{\text {st }}$ October 2017. Opening Cash Balance is Rs. 50,000 .
(Amount in Rs.)

| Month | Sales | Purchase | Wages | Factory <br> Expenses | Admin. <br> Expenses | Selling <br> Expenses |
| :--- | :--- | ---: | ---: | ---: | ---: | ---: |
| May | $2,00,000$ | 90,000 | 18,000 | 12,000 | 7,000 | 8,000 |
| June | $1,80,000$ | 95,000 | 20,000 | 14,000 | 8,000 | 9,000 |
| July | $2,10,000$ | 94,000 | 19,000 | 10,000 | 7,000 | 8,000 |
| August | $1,70,000$ | 94,000 | 15,000 | 13,000 | 5,000 | 8,500 |
| September | $1,75,000$ | 85,000 | 22,000 | 14,500 | 6,500 | 8,600 |
| October | $2,20,000$ | 72,000 | 18,000 | 11,000 | 7,200 | 9,300 |
| November | $2,12,000$ | 75,000 | 21,000 | 9,500 | 7,500 | 7,800 |

## Additional Information :

1. Machinery to be purchased for Rs. 60,000 in July will be payable on delivery.
2. Credit allowed to customer : 1 month, Credit allowed by supplier :1 Month
3. Wages are paid after one week, while factor expenses and administration expenses are paid one month after the month in which they are incurred.
4. A sales commission of $2.5 \%$ on sales is paid two months after the month in which sales is incurred.
5. Machinery to be purchased in August for Rs. $1,80,000$ is payable in two equal installments in September and October.

## Q. 3 Answer the following Questions :

1.Ninand Ltd. has provided Balance Sheet for the Year 2016-17.

Balance Sheet

| Liabilities | Amount (in Rs.) | Assets | Amount (in <br> 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 |  |  |
| Total | 200,000 | Total | $2,00,000$ |

The company's total asset turnover rate is 3 . Fixed operating costs are Rs. 1,00,000 and variable cost is $40 \%$ of sales. The tax rate is $50 \%$.
(i) Calculate Operating Leverage, Financial Leverage and Combined Leverage.
(ii)
Determine the likely level of EBIT, if EPS is (a) Rs. 1
(b) Rs. 3
(c) Zero
2.Sanklap Ltd. Is planning to consider following two projects for Investment. Initial Investment required by Project X is Rs. 60,000 and Project B is Rs. 50,000 . Both the projects are expected to generate following net cash inflows :

| Year | Project X | Project Y |
| :---: | :---: | :---: |
| 1 | 30,000 | 10,000 |
| 2 | 20,000 | 5,000 |
| 3 | 20,000 | 5,000 |
| 4 | 10,000 | 20,000 |
| 5 | 5,000 | 20,000 |
| 6 | 5,000 | 30,000 |

Cost of capital of the company is $10 \%$. Evaluate both the project proposals using following methods :
i. Pay Back Period
ii. NPV method
iii. Profitability Index Method
Q. 4 Answer the following Questions: (Any 2) (Each of 7.5 marks )

1. Define Working Capital and discuss in detail different types of working capital.
2. LTM ltd. Wants to install machinery costing Rs. $45,00,000$ for which it is considering various financial plans :
i. To raise entire amount of Rs. $45,00,000$ by equity capital or to issue $10 \%$ debentures of Rs. 22,50,000 and the remaining Rs.22,50,000 by equity capital.
ii. To raise entire amount of Rs. $45,00,000$ by equity capital or to issue $12 \%$ preference shares of Rs. 15,00,000 (subject to dividend tax of $10 \%$ ) , RS. 15,00,000 by issue of $10 \%$ debentures and Rs. 15,00,000 by equity capital.

Value of each equity share is Rs. 100 and corporate tax rate is $40 \%$. Determine Indifference point for each financial plan.
3. Karnataka Zeel Ltd. Decided to undertake a project for placing a new product in the market. The company's cut off rate is $12 \%$. It was estimated that the project would have economic life of 5 years. The project would cost Rs. 42,00,000 in plant and machinery in addition to working capital of Rs. $10,00,000$. The scrap value of machinery at the end of $5^{\text {th }}$ year is estimated to be Rs. 5,00,000 after providing for depreciation on straight line basis. Profit after tax were estimated as follows :

| Year | Profit after tax(in Rs.) |
| :---: | :---: |
| 1 | $5,00,000$ |
| 2 | $8,00,000$ |
| 3 | $10,00,000$ |
| 4 | $6,00,000$ |
| 5 | $5,00,000$ |

Ascertain the Net Present value of the Project and comment whether it should be accepted or not by company.
4. Define Financial Management and discuss the functions of Controller and Treasurer.

