Seat No: _____________ **Enrollment No: _____________**

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
BBA Summer 2017-18 Examination

Semester: 3 **Date: 06/06/2018**
Subject Code: 06101203 **Time: 02:00 pm to 04:30 pm**
Subject Name: Financial Management-1 **Total Marks: 60**

Instructions
1. Attempt all questions from each section.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Write section-A, section-B on separate answer sheets.

Q.1 Do as Directed.

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

1. With continuous compounding at 10 percent for 30 years, the future value of an initial investment of Rs.2000 is closest to __________.
   - **a)** Rs.34, 898
   - **b)** Rs.40, 171
   - **c)** Rs.328,282
   - **d)** Rs.164, 500
2. EBIT is usually the same thing as__________.
   - **a)** Funds provided by operations
   - **b)** Earnings before tax
   - **c)** Net income
   - **d)** Operating profit
3. The following does not influence or affect the capital budgeting cash flows:
   - **a)** Accelerated depreciation
   - **b)** Salvage value
   - **c)** Tax rate changes
   - **d)** Method of project financing used
4. Operating leverage is calculated by ___________.
   - **a)** EBIT/EBT
   - **b)** EBT/EPS
   - **c)** CONTRIBUTION/EBIT
   - **d)** CONTRIBUTION/EBT
5. If EOQ = 350 units, order costs is Rs.5 per order, and carrying costs is Rs.0.20 per unit, What will be the usage in units________?
   - **a)** 29,600 units
   - **b)** 2,592 units
   - **c)** 2,450 units
   - **d)** 8,720 units

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

1. Factoring
2. Economic Order Quantity
3. Rate of Return
4. Leverage
5. Time Value of Money

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

1. What is meant by Working capital?
2. What is Capital Budgeting?
3. Give Formula of Indifference Point.
4. What is the use EBIT-EPS indifference analysis chart?
5. What is inventory?

Q.2 Answer the following questions.

A) Explain the functions of Financial Management. **(07)**

B) Calculate the operating leverage, financial leverage and combined leverage from the following data under Situation I and II and Financial Plan A and B: **(08)**

Installed Capacity	2000 units	
Actual Production and Sales	75% of the Capacity	
Selling Price	Rs. 30 Per Unit	
Variable Cost	Rs. 15 Per Unit	
Fixed Cost:		
Under Situation I	Rs. 7500	
Under Situation-II	Rs. 10000	
Capital Structure:		
Financial Plan	A	B
	Rs.	Rs.
Equity	5000	7500
Debt (Rate of Interest at 20%)	5000	2500
	10000	**10000**

Q.3 Answer the following questions.

A) Explain the types of capital budgeting decisions? **(07)**

B) Prepare monthly cash budget for six months beginning from April 2006 on the basis of the following information:- **(08)**

(i) Estimated monthly sales are as follows:-

	Rs.		Rs.
January	50000	June	40000
February	60000	July	50000
March	70000	August	40000
April	40000	September	30000
May	30000	October	50000

(ii) Wages and salaries are estimated to be payable as follows:-

	Rs.		Rs.
April	4500	July	5000
May	4000	August	4500
June	5000	September	4500

(iii) Of the sales, 80% is on credit and 20% for cash. 75% of the credit sales are collected within one month and the balance in two months. There are no bad debt losses

(iv) Purchases amount to 80% of sales and are made and paid for in the month preceding the sales.

(v) The firm has 10% debentures of Rs.60000. Interest on these has to be paid quarterly in January, April and so on

(vi) The firm is to make an advance payment of tax of Rs.2500 in July, 2006.

(vii) The firm had a cash balance of Rs. 10000 on April 1, 2006, which is the minimum desired level of cash balance. Any cash surplus/deficit above/below this level is made up by temporary investments/liquidation of temporary investments or temporary borrowings at the end of each month (interest on these to be ignored).

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

1. Explain relevancy and importance of time value of money in financial decision making
2. Explain the concept of Compounding and Discounting with example?
3. Explain "Combined Leverage = Operating leverage * Financial leverage"
4. A company proposes to undertake two mutually exclusive projects X and Y

Particulars	**X**	**Y**
Initial capital outlay	Rs 11,25,000	Rs. 15,00,000
Economic life (years)	4	7
After tax annual cash inflows		
Year	**Rs.**	**Rs.**
1	300000	250000
2	625000	375000
3	500000	375000
4	375000	600000
5	-	625000
6	-	500000
7	-	400000

The company's cost of capital is 16%. Please calculate the net present value and ARR for both the projects.