

SHREE NARAYANA COLLEGE OF COMMERCE

AHMEDABAD

Name of the Department: BS BBA

Subject: FUNDAMENTALS OF FINANCIAL MANAGEMENT

Class & Semester: SEM 3

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ASSIGNMENT

SECTION – 1 (UNIT – 1)

Q1] Discuss the scope of Financial Management in brief.

Q2] Discuss the concept of Profit Maximization and Wealth Maximization.

Q3] Define Financial Management. Explain in detail Finance Functions.

Q4] What amount will amount to Rs.10,000 in 3 years at 12% compound interest per annum?

- (1) Compounding is done annually.
- (2) Compounding is done semi-annually.
- (3) Compounding is done quarterly.

Q5] Mr. Dhawal has borrowed Rs 6,00,000 from a bank at 16% rate of interest. The loan is repaid in equal annual installments across 6 years. Prepare a loan amortization schedule.

Q6] Mr. Ruchir wants to invest Rs 15,000 for 4 years. He has 2 options:

- (1) Quarterly compounding at 12% rate of interest.
- (2) Annual compounding at 13% rate of interest.

Which option is better?

Q7] Two partners X and Y together lend Rs 4,00,000 at 6% compounded annually. The amount A gets in 4 years is the same as what B gets at the end of 6 years. Determine the share of A and B in the total amount.

Q8] An investor has two options to choose from Rs 10,000 after 5 years OR Rs 2000 every year for 5 years. Assuming a discount rate of 10%, which alternative should he opt for?

SECTION – 2 (UNIT – 2)

Q1] Discuss the five factors affecting working capital needs

Q2] Discuss the objectives of Cash Management.

Q3] Write a note on: Optimum Credit Policy

Q4] Explain the concept of operating cycle in Working Capital Management.

Q5] Write a note on credit policy variables.

Q6] Write a note on the meaning and types of working capital.

Q7] Explain the motives for holding Cash.

Q8] The following details are available in respect of a firm:

(1) Annual requirement of Inventory: 6,00,000 units

(2) Purchase price per unit: Rs 6

(3) Cost of placing order: Rs 50

(4) Carrying Cost: 10%

Calculate Economic Order Quantity and Number of orders each year.

Q9] PQR Limited requires 60,00,000 units of an item annually. The cost per unit is Rs 160, ordering cost per order is Rs 1200 and carrying cost per unit is 10%. Calculate EOQ and the number of orders. Also calculate new EOQ if cost per unit drops to Rs 140.

Q10] XYZ Limited requires 10,00,000 units of machine annually. Cost per unit is Rs 1000. Ordering Cost is Rs 1600 per order and carrying cost is 20%. Calculate EOQ and number of Orders. If the cost per unit becomes four times, what is the new economic order quantity and number of orders.

SECTION – 3 (UNIT – 3)

Q1] A) Write a note on Financial Break-Even Point.

B) Give the meaning and formula of Operating Leverage and Financial Leverage. Also explain the concept and meaning of Trading on Equity.

Q2 Calculate Operating, Financial and Combined Leverage under Situation I and Situation II as well as Financial Plan A and B.

Production and Sales	15,000 units
Selling Price	Rs 100 per unit
Variable cost	50% of Selling Price
Fixed Cost:	
Under Situation I:	Rs 2,40,000
Under Situation II:	Rs 3,60,000

Capital Structure:

Financial Plan	Plan A	Plan B
Equity	6,00,000	3,00,000
Debt at 20 %	6,00,000	9,00,000
Total	12,00,000	12,00,000

Q3 Following is the balance sheet of ABC Limited:

Liabilities	Amount in Rs	Assets	Amount in Rs
Equity Capital (Rs 10 per share)	20,00,000	Net Fixed Assets	40,00,000
12% Preference Share Capital	4,00,000	Current Assets	20,00,000
Debts @ 8%	20,00,000		

Current Liabilities	16,00,000		
Total	60,00,000	Total	60,00,000

Selling Price per unit is Rs 20, variable cost per unit is Rs 12. Fixed Costs amount to Rs 4,00,000. Tax Rate is 40%. Original sales level was 1,00,000 units which rose to 1,10,000 units. Calculate:

- (a) Percentage increase in Earnings per share as sales increased from 1,00,000 to 1,10,000 units.
- (b) Operating, Financial and Combined Leverage for 1,00,000 and 1,10,000 units.

Q4 XYZ Limited plans to raise Rs 90,00,000 of fresh capital for its Expansion Plans. Following Financing Options are available:

Plan1: Rs 30,00,000 equity, Rs 50,00,000 12% Preference shares and Rs 10,00,000 10% Debentures.

Plan 2: Rs 60,00,000 Equity and Rs 30,00,000 11% Debentures.

Calculate Indifference Point between Plan 1 and Plan 2 and Financial Break Even Point for each plan. Also calculate Earnings Per Share for each plan, if expected EBIT is Rs 12,00,000.

Tax Rate is 40% and per unit value of each share and debenture is Rs100.

Q5] XYZ Co. is planning to raise Rs 30,00,000 capital for a new project. Two options are available.

Option 1: Issue Equity Share of Rs 10 each.

Option 2: Issue Equity Shares and 15% Debentures in ration 4:1

If the tax rate is 40%, calculate indifference point between option 1 and option 2

SECTION – 4 (UNIT – 4)

Q1 ABC Ltd. is considering purchase of a new plant costing Rs 6,00,000. The company estimates maintenance cost of Rs 40,000 each year. The working life of the plant is estimated to be 5 years; its scrap value is Rs 1,00,000. The cash flow before depreciation taxes and maintenance are as follows:

Year	Rs
1	1,40,000
2	2,00,000
3	3,00,000
4	4,50,000
5	6,00,000

Company charges depreciation using Straight Line Method and taxes rate is 50%. Assuming discount rate of 10%. Calculate average rate of return and net present value of the project.

Present value of Rupee 1 for the first five years at 10% discount rate is as under:

0.909, 0.826, 0.751, 0.683 and 0.621

Q2 A company wants to implement an expansion project. It will require an Investment of Rs 30,00,000. It will yield Profit Before Tax of Rs 5,00,000 every year. Life of project is 3 years and tax rate is 50%. Calculate the Pay-Back Period of this Project. If the minimum required payback period is 2 years, should the Project be accepted?

Q3 Write a note on “Internal Rate of Return” method of Capital Budgeting.

Q4 A project requires an investment of Rs 16,00,000. Expected Life of Project is 5 years with a salvage value of Rs 2,00,000. Tax rate is 50% and maintenance is Rs 40,000 per year. Depreciation is calculated using straight line method. If estimated cash flows before depreciation, maintenance and taxes are as follow, calculate the pay- back period and net present value for the project at 12 % rate of discount.

Year	CFBDMT
1	4,00,000
2	4,40,000
3	3,80,000
4	4,20,000

5	3,60,000
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Q5 Explain the types of Capital Budgeting decisions in brief.

SECTION – 5

DO AS DIRECTED

Q1 If Net Present Value is Positive, then Profitability Index is greater than 1.
(True / False)

Q2 With _____ technique, the amount of present cash can be converted into an amount of cash equivalent in future. (Compounding/ Discounting)

Q3 Define: Leverage

Q4 Define: Annuity

Q5 A project with _____ payback period should be selected.
(Shorter/Longer)

Q6 Internal audit and control are a function of _____ (Treasurer/Controller)

Q7 Difference between current assets and current liabilities is known as _____ working capital (Gross/Net)

Q8 The present value of perpetuity at 10% annual rate of interest is _____
