XX–3403

Seat No.________

Second Year B. B. A. Examination

March / April – 2003

Financial Management

Time : **3** Hours] [Total Marks : **70**

Instructions : (1) Figures to the **right** indicate marks of the question.

(2) Show **calculations** as a part of the answer.

(3) Clearly **mention** the number of the question you attempt.

(4) Present value tables will be **provided** on request.

1 (a) Discuss the modern approach to financial management. **5**

OR

(a) Explain the executive and routine functions of a financial manager. **5**

(b) Explain the following terms : (any **four**) **4**

(i) Stag	(ii) Jobber
(iii) Badla Transaction	(iv) Sell short
(v) Blue chips	(vi) Contango.

OR

(b) Briefly explain money market and capital market. **4**

(c) Write short notes on :

(i) Effects of under-capitalisation. **6**

OR

(i) Characteristics of an ideal financial plan. **6**

(ii) *ICICI* **6**

OR

(ii) Retained earnings as a source of finance. **6**

2 (a) Write short notes on : (any **two**) **10**

(i) Difference between fund flow statement and cash flow statement.

(ii) Advantages and dis-advantages of leasing to the lessor.

(iii) Advantages of adequate working capital.

(iv) Types of working capital.

(b) (i) Explain the objectives of inventory management. **4**

(ii) Calculate *EOQ* from the following information. *A* limited sells 2,25,000 units of a wrist watch per annum. The unit cost per watch is Rs.1000. The cost of placing an order is Rs.500 and carrying cost is 10%. Also find out number of orders to be placed per year. **4**

OR

(b) Prepare cash budget and calculate monthly surplus/deficit for the months January to March 2003. Opening balance on January 1, 2003 is Rs.30,000. **8**

(Rupees)

Month	Sales	Purchases	Wages	Overheads
October	1,60,000	1,20,000	5,000	12,000
November	2,00,000	1,50,000	16,400	14,000
December	2,40,000	1,90,000	19,000	10,000
January	2,80,000	2,20,000	18,000	13,000
February	3,20,000	1,80,000	17,800	14,500
March	3,60,000	1,75,000	14,000	11,000
April	4,00,000	2,00,000	19,700	9,500

Additional information :

(i) 40% Sales are on cash basis.

(ii) The credit sales are realised as under :
- 70% in the next month of the sale
- 20% in the second month following the sale.
- 10% in the third month following the sale.

(iii) Creditors for purchases are paid in the next month.

(iv) Machinery worth Rs.50,000 will be purchased in February.

(v) Fixed expenses are Rupees 10,000 per month which include Rs.3000 depreciation.

3 (a) Explain the significance and limitations of trading on equity. **7**

OR

(a) Explain the factors influencing payment of dividend. **7**

(b) The following information of two companies *A* and *B* are given. Calculate operating leverage, financial leverage and combined leverage for both the companies. Also comment on the relative risk position of the company. ***7***

(Rupees)

Particulars	**Company *A***	**Company *B***
Sales	50,00,000	80,00,000
Variable cost	20,00,000	25,00,000
Fixed cost	12,00,000	15,00,000
Interest	8,00,000	12,00,000

OR

(b) *XYZ Limited* has an average selling price of Rupees 50 per unit. Its variable cost is Rs.15 per unit, and fixed costs amount to Rs.8,00,000. It finances all its assets by equity funds. It pays 40% tax on its income. *PQR Limited* is identical to *ABC Limited*, except in the pattern of financing. It finances its assets 50% through equity and 50% through debt, interest on which amounts to Rs.2,00,000. **7**

Determine the degree of operating financial and combined leverage of 1,00,000 units are sold for both the firms.

4 (a) *Bush Corporation* wishes to buy a new machine for its modernisation programme. Company has two options, and the cost of both the machines is Rs.8,00,000, with an estimated life of five years and no salvage value. It is estimated to generate the following stream of earnings before depreciation and tax. **9**

Year	Machine - I *EBDT*	Machine - *II EBDT*
1	1,00,000	1,50,000
2	2,00,000	2,50,000
3	3,25,000	3,50,000
4	4,40,000	2,00,000
5	4,25,000	3,15,000

Assuming depreciation as per *SLM* method and tax rate of 40%, find out.
Pay back period of both the machines and advise the company as to which machine it should buy.

OR

9 *Jagrut Times* is considering a proposal to install a newspaper vending machine on 24 hours basis. **9**
The required investment for the same is Rs.20,00,000 and the expected earnings before depreciation and tax is as following :

Year	EBDT
1	3,00,000
2	4,00,000
3	6,00,000
4	7,00,000
5	10,00,000
6	11,00,000
7	13,00,000
8	14,00,000

The company considers depreciation on *SLM* method and tax rate is 50%.
From the above data find out net present value with 10% rate of discount.

4 (b) Explain the merits and demerits of Average Rate of Return method of evaluating capital projects. **8**

OR

(b) Define capital budgeting. Explain various types of capital budgeting proposals. **8**