



**BBD-1624**

Seat No. \_\_\_\_\_

**B. B. A. (Sem. - VI) Examination**

**April/May - 2014**

**CC - 404 : Financial Management**

Time : 3 Hours]

[Total Marks : 70

- Instructions :** (1) Question 1 and 4 are compulsory.  
(2) Figures in the right indicate marks.  
(3) Show necessary calculations as a part of your answers.

- 1 Following are the data on a capital project being 14 evaluated by the management of MKH Ltd.

***Project H***

Annual cost savings (Rs.) ..... 40,000

Useful life ..... 4 years

IRR ..... 15%

Profitability Index ..... 1.064

NPV ..... ?

Pay-back period ..... ?

Cost of capital ..... ?

Salvage value ..... 0

Find the missing values

- 2 (a) Explain SML in brief. 4
- (b) Hilt share is quoted at Rs. 60. Om expects 10  
the company to pay a dividend of Rs. 3 per  
share, one year from now. The expected price  
one year from now is 78.50.
- (i) What is the expected dividend yield rate of  
price change and holding period yield (HPY) ?
- (ii) If the beta of the share is 1.5, the risk free  
rate is 6% and the market risk premium is  
10%, what is the required ROR?
- (iii) What is the intrinsic value of the share ? How  
does it compare with the current market  
price ?

**OR**

- 2 (a) Explain CAPM model. 4
- (b) The probability of return from two 10  
companies as below.

<i>State of Economy</i>	<i>Probability of occurrence</i>	<i>Rate of Dhruvi Ltd.</i>	<i>Return (%) Krishi Ltd.</i>
Boom	0.30	16	40
Normal	0.50	11	10
Recession	0.20	6	-20

Find out expected return, variance and standard deviation.

- 3 (a) Write short note on : "Special working capital". 4  
 (b) Cost sheet of company provides the following 10 data:

	<i>Rs. Per Unit</i>
Raw Materials.....	50
Direct Labour .....	20
Overheads (including depreciation of Rs. 10) .....	40
Total Cost .....	<u>110</u>
Profit.....	<u>20</u>
Selling Price .....	<u>130</u>

*Additional Information :*

Average raw material in stock is one month.  
 Average material in progress is for half month.  
 Credit allowed by suppliers : one month. Credit  
 allowed to debtors: one month. Finished goods lies  
 in the warehouse for one month. Cash balance  
 expected to be Rs. 1,00,000.

You are required to prepare a statement  
 showing the working capital needed to finance a  
 level of the activity of 50,000 units of output.  
 Production is carried out evenly throughout the  
 year. Assume 360 days in year.

**OR**

- 3 (a) Explain the method of MPBE as per Tondon Committee with hypothetical example. 4
- (b) Following is the balance sheet of Kusum Ltd. Calculate the amount of MPBF by all three methods for working as per Tondon Committee norms. You are required to assume the level of core current assets to be Rs. 60 lacs. 10

You are also required to calculate the current ratio as recommended by the committee assuming that the bank has granted MPBS.

### Balance Sheet as at 31.3.2013

(Amt. in Rs. lacs)

<i>Liabilities</i>	<i>Amount</i>	<i>Assets</i>	<i>Amount</i>
Equity share of		Fixed Assets	1,000
Rs. 10 each	400	<u>Current Assets:</u>	
Retained Earnings	400	Raw materials	200
11% Debentures	600	Work-in-progress	300
Public Deposits	200	Finished goods	150
Trade creditors	160	Debtors	200
Bills payables	200	Cash at Bank	110
	<b><i>1,960</i></b>		<b><i>1,960</i></b>

- 4 (a) Annual demand for an item is 4,800 units. 11  
 Ordering cost is Rs. 500 per order. Inventory carrying cost is 24% of the purchase price per unit, per year. The price breaks are as shown below :

Quantity	Price (Rs.)
$0 \leq \phi_1 < 1200$	10
$1200 \leq \phi_2 < 2000$	9
$2000 \leq \phi_3$	8

- (i) Find the optimal order size.  
 (ii) If the order cost is changed to Rs. 300 per order find the optimal order size.
- (b) Explain various methods of determine EOQ. 3
- 5 (a) Explain : Optimum Credit Policy. 4  
 (b) Prepare cash budget for the three months 10  
 ending 30-6-2013 from the following information of Alok Ltd. Cash balance as on 1-4-2013 Rs. 45,000.

Months	Total Sales (Rs.)	Credit Sales Return (Rs.)	Total Purchase (Rs.)	Wages (Rs.)	Overheads (Rs.)
February	2,80,000	4,000	2,65,000	26,000	46,000
March	3,20,000	6,000	2,40,000	28,000	30,000
April	4,00,000	10,000	2,80,000	24,000	44,000
May	3,60,000	8,000	3,00,000	32,000	50,000
June	3,40,000	12,000	3,20,000	36,000	60,000

- (i) Assume the proportion for cash sales and credit sales as 1:4.
- (ii) Assume 20% of total purchase to be cash purchase.
- (iii) 50% of the net credit sales are realized in the month following the sales and remaining 50% in the second month, following the month.
- (iv) The period of credit allowed by suppliers is one month.
- (v) The time lag in the payment of wages is  $\frac{1}{4}$  month and time lag in the payment of OH is  $\frac{1}{2}$  month.

OR

- 5 (a) Explain : Lock box system. 4
- (b) A firm is contemplating to increase the 10  
selling period from 45 days to 72 days. At  
present, the average collection period is 60  
days, which is expected to increase to 90 days.  
It is also expected that bad debts will increase  
from the current level of 2% to 4% of sales.  
The credit sale which is at present 18,000 unit  
is expected to increase to 21,000 units. The  
average cost per unit is Rs. 15; the selling  
price is Rs. 20 and variable cost per unit is  
Rs. 12. The expected ROR of the firm is 20%.  
State whether the firm should extend the  
credit policy.
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