# P. P. SAVANI UNIVERSITY

Third semester of B.B.A Examination

November -2021

**SMBB2150-FINANCIAL MANAGEMENT IN BUSINESS**

26.11.2021, Friday    Time: 09:00 a.m. to 11:30 a.m.    Maximum Marks: 60

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***Instructions:***

1. The question paper comprises of two sections.
2. Section I and II must be attempted in separate answer sheets.
3. Make suitable assumptions and draw neat figures wherever required.
4. Consider values from the given PV and FV table in the respective questions.

## SECTION – I

**Q - 1** Fill in the Blanks (Any Five) **[05]**

**(i)** Cost of a 9% Irredeemable preference share, having face value Rs. 1000 trading at Rs. 900 will be ____.

**(ii)** ______ is theminimum required rate of return that a company must earn on its investments to satisfy the various categories of investors.

**(iii)** Increase in duration for investment will lead to increase in ________ value.

**(iv)** A company should prefer a lower ________than its return on Investments.

**(v)** Financial decisions include financing decisions, investing decisions, ________ and dividend decisions.

**(vi)** Cost of Debt is always ____ than cost of equity.

**(vii)** Present Value of an annuity due means cash flows are occurring at the _______ of each period.

**Q - 2 (a)** Trisha wants to go for a trip to Spain with her friends. She deposits Rs. 200000 in her savings account at the end of every quarter @12% p.a. compounded quarterly. Determine how much she will accumulate at the end of 4 years. **[05]**

| For rate and years | FVIF | PVIF | FVIFA | PVIFA |
|---|---|---|---|---|
| *at 12% for 4 years* | 1.5735 | 0.6355 | 4.7793 | 3.0373 |
| *at 3% for 16 years* | 1.6047 | 0.6232 | 20.1569 | 12.5611 |
| *at 4% for 12 years* | 1.601 | 0.6246 | 15.0258 | 9.3851 |

**Q - 2 (b)** An investor is likely to receive Rs. 6,000 p.a. for the first 2 years, Rs. 8,000 p.a. for the next 2 years and Rs. 10,000 p.a. for next 3 years. Interest Rate is 12% p.a. Find the value ofhis total receivables today. **[05]**

| Years | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|---|---|---|---|---|---|---|---|
| PVIF @ 12% | 0.8929 | 0.7972 | 0.7118 | 0.6355 | 0.5674 | 0.5066 | 0.4523 |

**OR**

**Q - 2 (a)** You plan to go for FIFA world cup 2026 at Canada with friends and the expected amount of Rs. 10,00,000 will be needed for this purpose at that time. You have decided to accumulate this amount by investing a fixed amount of Rs. 100000 at the end of each year in a safe scheme offering a rate of interest at 12%. How long will it take for you to arrange for the target amount? **[05]**

| For rate and years | FVIF | PVIF | FVIFA | PVIFA |
|---|---|---|---|---|
| *at 12% for 4 years* | 1.5735 | 0.6355 | 4.7793 | 3.0373 |
| *at 12% for 6 years* | 1.9738 | 0.5066 | 8.1152 | 4.1114 |
| *at 12% for 10 years* | 3.1058 | 0.322 | 17.5487 | 5.6502 |

**Q - 2 (b)** Mr. Pandya wants to purchase a Mercedes-Benz E-class costing Rs. 57,00,000. HDFC bank is offering him a loan of Rs. 50,00,000 @ 12% p.a. for the same, to be repaid in 4 equal annual installments payable at the end of each year. Find the value of each installment for Mr. Pandya. *(FVIF =1.5735 , PVIF = 0.6355, FVIFA = 4.7793, PVIFA = 3.0373)* **[05]**

Q - 3 (a) The equity stock of Rajni Ltd. is currently selling for Rs. 280 per share. The expected dividend a year from now is Rs. 20. The investors' required rate of return on the stock is 25%. If the constant growth model applies to Rajni Ltd. what is the expected growth rate? [05]

Q - 3 (b) Discuss how Risk, cost and control will affect selection of a source of finance and explain debt as a long term source of finance in detail. [05]

**OR**

Q - 3 (a) Aurobindo Ltd. issued 12% Debentures of Rs. 100 each at 5% discount and redeemable after 5 years at 5% premium. Floatation cost Rs. 2%. Tax rate applicable is 35%. Calculate post-tax cost of debt. Will your answer change if redemption of debentures will happen at par? [05]

Q - 3 (b) Given below is the capital structure of a company. You are required to calculate WACC using BV and MV weights. [05]

| Type of Capital | Book Value | Market Value | Specific Cost |
|---|---|---|---|
| Debentures | 10,00,000 | 9,40,000 | 9% |
| Preference Share Capital | 4,50,000 | 4,00,000 | 11% |
| Equity Share Capital | 19,00,000 | 23,00,000 | 14% |

Q - 4 **Attempt any one.** [05]

(i) Profit Maximisation Vs. Wealth Maximisation

(ii) Role of a Finance Manager

## SECTION – II

Q - 1 **Explain the following terms. (Any Five)** [05]

(i) EOQ

(ii) Operating leverage

(iii) Capital structure

(iv) Debt-equity ratio

(v) NI approach

(vi) Credit standards

(vii) Trading on equity

Q - 2 (a) Describe NOI approach of capital structure theory. [05]

Q - 2 (b) Sales (200000 units, Rs. 16 each) = Rs. 3200000 [05]
Fixed Cost = Rs. 480000
Variable Cost (Rs. 8 per unit) = Rs. 1600000
Interest = Rs. 120000
Calculate the degree of operating leverage, financial leverage and combined leverage.

**OR**

Q - 2 (a) Explain the factors affecting capital structure. [05]

Q - 2 (b) The installed capacity of an organization is 30000 units. The actual exploited capacity is 25000 units. Selling price per unit is Rs. 10 each and variable cost is Rs. 6 per unit. [05]
i.) When fixed cost is 25000
ii.) When fixed cost is 55000
iii.) When fixed cost is 75000
Measure the degree of operating leverage in each of the above situation. (2 marks)
Explain the impact of fixed cost on operating leverage. (3 marks)

Q - 3 (a) Explain the factors affecting working capital requirement in a firm. [05]

Q - 3 (b) Explain the concept of Gross Operating Cycle and Net Operating Cycle. [05]

**OR**

Q - 3 (a) Explain how increase or decrease in credit period affects operating profits. [05]

Q - 3 (b) ABC co. ltd is planning to manufacture a product developed by its R & D department. The [05] new product will be sold at Rs.500 per unit. The cost of production is estimated as follows:

| | Cost |
|---|---|
| Raw Material | 300 |
| Direct Labour | 100 |
| Overheads | 50 |
| Total | 450 |

Initially, 120000 units will be sold in a year. The credit sales are 80% of the total sales.

| | |
|---|---|
| Raw Material Stock Requirement | 1 month |
| Processing Time for WIP | Half Month |
| Finished Goods Stock | 2 months |
| Credit allowed to Debtors | 1 month |
| Credit allowed by Suppliers | Half month |
| Time gap in payment of wages and overheads | Half month |

Prepare a statement showing the amount of working capital required by the company.

**Q - 4** Mr. Patwari has recently set up a restaurant in a prominent shopping complex. He wants you to prepare a cash budget for January to March for him. He has provided the following information: **[05]**

a.) Sales are expected to be Rs. 50000 in January, Rs. 55000 in February and Rs 60000 in March. All sales will be in cash.
b.) His estimated purchases are Rs. 20000 in January, Rs. 22000 in February and Rs. 25000 in March. Payments of purchase will be made after a time lag of 1 month. Purchases for the month of December were Rs. 22000.
c.) Rent per month is 5000 and his personal withdrawal per month is 5000.
d.) Salaries and other expenses are expected to be Rs. 15000 in January, Rs. 18000 in February and Rs. 20000 in March.
e.) He plans to buy furniture of Rs. 25000 in the month of February in cash.

The cash balance at present is Rs. 25000.

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