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SB-1379

Second Year B. B. A. (Sem. IV) Examination

March / April – 2011

Financial Management

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

Instructions :

(1)

નીચે દર્શાવેલ ☛ નિશાનીવાળી વિગતો ઉત્તરવહી પર અવશ્ય લખવી.
Fillup strictly the details of ☛ signs on your answer book.

Name of the Examination :
☛ **S. Y. B. B. A. (Sem. 4)**

Name of the Subject :
☛ **Financial Management**

☛ Subject Code No. : **1 3 7 9** ☛ Section No. (1, 2,.....) : **Nil**

Seat No. :

Student's Signature

(2) Figures to the **right** indicate full marks.

(3) Use of simple calculator is permitted.

1 Answer the following : (any **six**) **12**

(i) Which goal of financial management is superior ? Why ?

(ii) Discuss instruments traded in money market.

(iii) Which security is known as variable income security ? Why ?

(iv) Compare NPV and IRR.

(v) What is lock-box system ?

(vi) What is Commercial Paper ?

(vii) State causes of under capitalization.

(viii) Define the degree of operating leverage.

2 (a) Explain major finance function. **5**

(b) Explain features of debenture and evaluate it from the company's point of view. **7**

OR

2 (a) Distinguish between Money Market and Capital Market. **5**

(b) Explain features of Equity Shares and evaluate it from the shareholders' point of view. **7**

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3 (a) Explain causes and effect of over capitalization. **6**

(b) Discuss various methods of credit evaluation. **7**

(c) State motives of holding cash. **2**

OR

3 (a) Discuss the significance of capital budgeting. **6**

(b) Explain the dangers involved in maintaining excess and inadequate investment in inventory. Explain various stock levels. **7**

(c) What do you mean by trading on equity ? **2**

4 (a) Meet Ltd. is about to commence a subsidiary business and has provided finance in respect of the acquisition of the necessary fixed assets. You are required to advise the directors as to the additional amounts which should be made available for working capital. Following estimates of the coming year are given. You are informed that the overdraft limit of Rs. 15,000 has been arranged with the company's banker : **14**

Particulars	***Average Period of Credit***	***Estimate for Comming year***
Purchase of material	6 weeks	2,60,000
Wages	$1\frac{1}{2}$ weeks	1,95,000
Overheads :		
Rent	6 months	10,000
Director's and manager salary	1 month	36,000
Office Salaries	2 week's	45,500
Traveller' Commission	3 months	20,000
Other overheads	2 months	60,000
Sales :		
Cash	----	14,000
Credit	7 week's	6,50,000
Average amount of stock and WIP	---	30,000
Average amount of undrawn profit	----	31,000

You are required to prepare from the above figures and information, statements for submission to your management giving an estimate of average working capital which they should provide.

(b) What is EOQ ? **2**

OR

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4 (a) A company has an investment opportunity costing Rs. 4,00,000 with the following expected net cash flow (i.e. EAT). **10**

Year :	1	2	3	4	5	6	7	8	9	10
EAT :	70,000	70,000	70,000	70,000	70,000	80,000	1,00,000	1,50,000	1,00,000	40,000
PVIF@10% :	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386
PVIF @ 15% :	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327	0.284	0.247

Using 10% as the cost of capital calculate the following and using accept-reject criteria suggest the management whether to go for the opportunity or not :

(i) Pay back Period (Standard PBP 6.5 years)

(ii) Net Present Value

(iii) Profitability Index.

(b) Explain leverage. **6**

5 Write short notes : (any **three**) **15**

(i) Capital Rationing

(ii) Process of :Cash Management

(iii) Chore Committee on Working Capital Financing.

(iv) Importance of receivables management and factors influencing the size of investment in receivables.

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