

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA - SEMESTER-II • EXAMINATION – SUMMER 2015

Subject code: 2820003

Date: 21/05/2015

Subject Name: Financial Management (FM)

Time: 10.30 AM TO 01.30 PM

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

- Q.1** (a) Select the correct answer. **06**
- 1 According to NOI approach increase in leverage will affect
 - (a) cost of debt
 - (b) cost of equity
 - (c) overall capitalization rate
 - (d) None of the above
 - 2 According to NI approach, as leverage decreases
 - (a) average cost of capital decreases
 - (b) average cost of capital increases
 - (c) cost of debt increases
 - (d) cost of equity decreases
 - 3 The constant-growth dividend discount model will not produce a finite value if the dividend growth rate is:
 - (a) Above its historical average
 - (b) Below its historical average
 - (c) Above the market capitalisation rate
 - (d) Below the market capitalisation rate
 - 4 Following is the model for cash management
 - (a) Walter Model
 - (b) Baumol Model
 - (c) Gordon Model
 - (d) None of the above
 - 5 Which one of the following is not a major driver of growth?
 - (e) Current ratio
 - (f) Retention ratio
 - (g) Return on equity
 - (h) All the above
 - 6 The trade terms "2/15, net 30" indicate that:
 - a) 2% discount is offered if payment is made within 15 days.
 - b) 15% discount is offered if payment is made within 30 days.
 - c) 2% discount is offered if payment is made within 30 days.
 - d) 30% discount is offered if payment is made within 15 days.
- (b) Define the following terms **04**
1. Cash-flow

2. YTM
3. IRR
4. Working Capital

(c) What is Cash Budget? Explain with format 04

Q.2 (a) Discuss the limitations of “Profit Maximization” goal of Finance. 07

(b) The below information belongs to Khushi Ltd. 07

Particulars	Amount per unit in INR
Raw materials	50
Direct labour	25
Overhead	15
Total cost	90
Profit	10
Selling price	100

The following further particulars are available:

Raw materials in stock = one month;

Materials in process = half a month;

Finished goods in stock = one month.

Credit allowed to debtors = two months;

Credit allowed by suppliers = one month;

Average time-lag in payment of wages = half a month;

Overhead expenses = one month;

One-fourth of the output is sold against cash;

Cash in hand and at bank is desired to be maintained at Rs. 80000

You are required to prepare a statement showing the working capital needed to finance a level of activity of 50000 units of production.

OR

(b) Miss Katrina has housing loan worth INR 50,00,000 for 8 years. Axis 07
Bank had offered 10% rate of interest on housing loan. Calculate the annual installment and prepare loan amortization schedule for 8 years.

Q.3 (a) Discuss the various sources of short term working capital funding. 07

(b) Sales (200000 units Rs. 16 each) = 3200000 07

Variable Cost (Rs. 8 per unit) = 1600000

Fixed Cost = 480000, Interest = 120000

Calculate the degree of operating leverage, financial leverage and combined leverage.

OR

Q.3 (a) You are working in finance department of Manufacturing Industry. You 07
were given the responsibilities of forecasting working capital for company. What are the factors you will consider that affects on working capital requirement in manufacturing industry?

(b) From the below information calculate the value of shares by using 07
Gordon Dividend Model.

Situation 1: Retention Ratio is 80%

Situation 2: Retention ratio is 50%.

Situation 3: Retention ratio is Nil

EPS = 20 Rs.

Cost of capital = 20%

Rate of Earning = 15%

Comment on your calculations

Q.4 (a) What is NI and NOI approaches of capital structure? How both are contradicting each other? Discuss with assumptions and graphs. **07**

(b) Investment of the project is 500000 and cost of capital is 15% **07**
The expected cash flow of the project is as follows

Year	Expected Cash-flow
1	80500
2	160250
3	215450
4	155350
5	105405
6	85000

Calculate the NPV and PI of the above project and give your comments.

OR

Q.4 (a) What is NPV and IRR? Discuss with their limitations and compare them. **07**

(b) The following cash flows are available from FF7 Ltd. **07**

Year	1	2	3	4	5
Project A	7000	8000	9000	10000	12000
Project B	5000	12000	15000	17000	15000

Cash outflow is 35000 for Project A and 40000 for Project B. You are required evaluate both the projects with NPV if the discount rate is 12%.

Q.5 (a) Explain the nature of the factors which influence the dividend policy of a firm **07**

(b) Company U and L are identical in every respect except that the former does not debt in its capital structure while later employs Rs. 6 00 000 of 15% debt. The EBIT for both the firms are Rs. 2 00 000. Equity capitalization rate for unleveled company is 20%. Compute the value of the firms using NOI and NI approach. **07**

OR

Q.5 (a) Discuss the major variables for Receivable management policy **07**

(b) At the time of his retirement, Sonia Gandhi is given a choice between two alternatives: (a) an annual pension of Rs 120,000 as long as he lives, and (b) a lump sum amount of Rs.1,000,000. If Sonia expects to live for 20 years and the interest rate is expected to be 10 percent throughout , **03**

which option appears more attractive

- (c) Pioneer Stores is trying to determine the economic order quantity for a certain type of machine tool. The firm sells 60,000 numbers of this machine tool annually at a price of Rs.100 per piece. The purchase price per machine tool to the firm is, however, Rs.65. The cost of carrying a machine tool is Rs.10 per year and the cost of placing an order is Rs.80. **04**
- (a) What is the total cost associated with placing 10, 20, 50, 60, 75 and 80 orders per year?
- (b) What is the economic order quantity as per EOQ Model?

PVIF Table

n	10%	12%	14%	15%	18%	19%	20%
1	0.909	0.893	0.877	0.870	0.847	0.840	0.833
2	0.826	0.797	0.769	0.756	0.718	0.706	0.694
3	0.751	0.712	0.675	0.658	0.609	0.593	0.579
4	0.683	0.636	0.592	0.572	0.516	0.499	0.482
5	0.621	0.567	0.519	0.497	0.437	0.419	0.402
6	0.564	0.507	0.456	0.432	0.370	0.352	0.335
7	0.513	0.452	0.400	0.376	0.314	0.296	0.279
8	0.467	0.404	0.351	0.327	0.266	0.249	0.233
9	0.424	0.361	0.308	0.284	0.225	0.209	0.194
10	0.386	0.322	0.270	0.247	0.191	0.176	0.162
20	0.149	0.104	0.073	0.061	0.037	0.031	0.026

PVIFA Table

n	10%	12%	14%	15%	18%	19%	20%
1	0.909	0.893	0.877	0.870	0.847	0.840	0.833
2	1.736	1.690	1.647	1.626	1.566	1.547	1.528
3	2.487	2.402	2.322	2.283	2.174	2.140	2.106
4	3.170	3.037	2.914	2.855	2.690	2.639	2.589
5	3.791	3.605	3.433	3.352	3.127	3.058	2.991
6	4.355	4.111	3.889	3.784	3.498	3.410	3.326
7	4.868	4.564	4.288	4.160	3.812	3.706	3.605
8	5.335	4.968	4.639	4.487	4.078	3.954	3.837
9	5.759	5.328	4.946	4.772	4.303	4.163	4.031
10	6.145	5.650	5.216	5.019	4.494	4.339	4.193
20	8.514	7.469	6.623	6.259	5.353	5.101	4.870
