

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER 2 – EXAMINATION – SUMMER 2019

Subject Code:2820003

Date:13/05/2019

Subject Name: Financial Management

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)** Question text and Option. **06**
- 1) **Cost of Capital is the _____ required rate of return expected by investors.**
A. Minimum B. Maximum
C. Optimum D. Exact
 - 2) **In the absence of _____ real rate would be equal to the nominal rate.**
A. Depreciation B. Leverage
C. Inflation D. All of above
 - 3) **NOI Approach is a _____ to the capital structure.**
A. Relevant B. Irrelevant
C. Perfect D. None of above
 - 4) **Gross working capital equals to _____**
A. Total Current Assets B. Total Assets
C. Total Current Liabilities D. Total liabilities
 - 5) **Dividend refers to that portion of company's _____ that are paid out to the equity share holders.**
A. Equity B. Net Earnings
C. Debt D. Tax payment
 - 6) **Intrinsic value is the _____ cash flows expected over a series of years of holding an asset.**
A. Present Value B. Future value
C. Historical value D. Book value
- Q.1(B)** State the important functions of financial manager in the era of changing business environment. **04**
- Q.1(C)** Explain the concept of Doubling period. **04**
- Q.2 (A)** What do you mean by Retained Earning? Discuss. **07**
- Q.2 (B)** The shares of Kahan Industries Ltd. are selling at Rs. 20 per share. The firm had paid dividend at Rs. 2 per share last year. The estimated growth of the company is approximately 5% per year. **07**
- A. Determine the cost of equity for company.
 - B. Determine the estimated market price of the equity share if the anticipated growth rate of the firm 1) Rises to 8% 2) Falls to 3%
- OR**
- Q.2 (B)** Suppose Tavishee deposits each year starting Rs. 750, Rs. 1000, Rs. 1250, Rs. 1500 and Rs. 1750 in her saving bank account for 1 to 5 years respectively. What is her deposits compound value at the end of 5 years? Interest rate is 6%. **07**
- Q.3 (A)** "The profitability Index and NPV criteria of evaluating investment proposals lead to the same acceptance, rejection and decision making" Do you agree with this statement? Discuss your answer. **07**

Q.3 (B) Saraan Corporation has the following book value of Capital Structure.

07

Securities	Amount Rs.	After Tax Cost
Equity Capital (15 Lakh shares at Rs. 10each)	15000000	--
12% Preference Share	5000000	12%
Retained Earnings	10000000	--
13% Debentures	6000000	13%
Term Loan (12%)	7000000	12%

Expected dividend is Rs. 2 per share. Calculate Weighted Average Cost.

OR

Q.3 (A) Discuss the Advantages of debt financing from the point of the company and investors.

07

Q.3 (B) Kayaan Ltd Company is considering the purchase of machines. Two machines P and Q each costing Rs. 50000 are available. Earnings after taxes are expected to be as under;

07

Year	Machine P Rs.	Machine Q Rs.	Discount factor at 10%
1	15000	5000	0.9091
2	20000	15000	0.8264
3	25000	20000	0.7513
4	15000	30000	0.6830
5	10000	20000	0.6209

Evaluate the two alternatives according to NPV method (a discount of 10% is to be used). Which Machine should be selected? Why?

Q.4 (A) Explain various long term and short term sources of finance in detail.

07

Q.4 (B) The following figures relate to two companies

07

Particulars	Nehal Ltd. (Rs. In Lakh)	Kinjal Ltd. (Rs. In Lakh)
Sales	500	1000
Variable Cost	200	300
Contribution	300	700
Fixed Cost	150	400
EBIT	150	300
Interest	50	100
Profit before tax	100	200

You are required to;

- Calculate the operating, financial and combined leverage for both the companies.
- Comment on the relative risk position of them.

OR

Q.4 (A) Write a short note on MM Hypothesis of dividend policy with suitable example.

07

Q.4 (B) Kashvee Food Processing Company expects an EBIT of Rs. 100000. It has 10% debentures of Rs. 300000. The company's equity capitalization rate is 12.5%. Calculate the value of the firm and cost of capital according to NI Approach.

07

The company is interested to increase debt by Rs. 100000 with same interest rate. Show value of firm and cost of capital. And also comment on value of firm and cost of capital behavior.

Q.5 A Cost sheet of Nikita Polymers Ltd. Provides you the following information;

14

Element of Cost	Amount per Unit
Materials	80
Direct Labors	30
Overheads	60
Total Cost	170
Profit	30
Selling Price	200

The Following further particulars are available;

- Raw materials are in stock for average one month.
- Raw materials are in process on an average half a month.
- Finished goods are in stock on an average one month.
- Credit allowed by suppliers one month.
- Lag in payment of overheads is one month.
- Lag in payment of wages is 1.5 weeks.
- 25% output is sold against cash.
- Cash in hand and at bank is expected to be Rs. 125000
- Credit allowed to customers 2 months.

You are required to prepare a statement showing the working capital needed to finance level of activities of 208000 units of production.

OR

Q.5 The Trisha Ltd. needs Rs. 5000000 for construction of a new plant. The following three financial plans are feasible. **14**

- The company may issue 50000 equity shares at Rs. 100 per share.
- The company may issue 25000 equity shares at Rs. 100 each and 2500 debenture at Rs. 100 each at 8% interest.
- The company may issue 25000 equity shares at Rs. 100 per share and 25000 preference shares at Rs. 100 per share bearing 8% rate of dividend.

If the company's earnings before interest and taxes are Rs. 100000, Rs. 200000 and Rs. 400000. What are the earnings per share under each of the three financial plans? Which alternative would recommend and why? Assume corporate tax to be 50%.
