Seat No.: _____ Enrolment No._____

# GUJARAT TECHNOLOGICAL UNIVERSITY

**MBA – SEMESTER (2)– EXAMINATION– SUMMER 2018**

**Subject Code: 3529203 Date: 25/05/2018**

**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** Explain the following terms: **14**

1) Discounted Cash Flow
2) Retained Earnings
3) Cost of Capital
4) Agency Problem
5) Working Capital
6) Operating Cycle
7) Doubling Period

**Q.2 (A)** What do you mean by Financial Management? Discuss various Functions of financial management in detail. **07**

**Q.2 (B)** Suppose Mr. Nehal deposits at each year starting Rs. 750, Rs. 1000, Rs. 1250, Rs. 1500 and Rs. 1750 in his saving bank account 1 to 5 years respectively. Calculate the compound value of deposits at the end of 5 years. Interest rate is 6%. **07**

**OR**

**Q.2 (B)** ABC company issued 10% bonds with a face value of Rs. 1000 for a maturity period of 4 years. Required rate of return is (A) **10%**, (B) **12%** and (C) **8%.** **07**
Determine the value of bond in each situation.

**Q.3 (A)** Explain Capital Budgeting and also discuss importance of Capital Budgeting. **07**

**Q.3 (B)** Cash inflows of Kayaan Projects Pvt. Ltd. Along with Cash outflows are given below. **07**

| Year | 0 | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|---|
| Cash Outflows | 1,50,000 | 30,000 | -- | -- | -- | -- |
| Net Cash Inflows after depreciation and Tax | -- | 20,000 | 30,000 | 60,000 | 80,000 | 30,000 |

The salvage value at the end of 5th year is Rs. 40,000. Calculate Net Present Value of this Project at 10% Discounting Rate and also through light on the acceptance of this Project.

**OR**

**Q.3 (A)** What is Pay Back Method? State its Advantages and Limitations in detail. **07**

**Q.3 (B)** From the following information of Tavishee & Kashvee Pvt. Ltd. Determine Overall Cost of Capital by using Book value Rates and Market value Rates. **07**

| Sources of Finance | Book Value | Market Value | Cost Percentage |
|---|---|---|---|
| Equity share | 3,00,000 } | 6,00,000 | 15% |
| Retained Earnings | 1,00,000 } | | 13% |
| Preference share | 50,000 | 60,000 | 8% |
| Debenture | 2,00,000 | 1,90,000 | 6% |
| **Total** | **6,50,000** | **8,50,000** | |

**Q.4 (A)** Determine various Factors influencing Capital Structure. **07**

**Q.4 (B)** Mihir Auto Pvt Ltd, a petrol engine manufacturer buys an item in lots of 2,000 units which is a three month requirement. The cost per unit is Rs. 90 and the ordering cost is Rs. 180 per batch order. The inventory carrying cost is estimated at 20% of the overage inventory investment. **07**

a) What is the Annual Total Cost of existing inventory policy?
b) How much money can be saved by using Economic Order Quantity (EOQ)?

**OR**

**Q.4 (A)** Discuss the differentiation between Operating Leverage and Financial leverage. **07**

**Q.4 (B)** Kahan Industries Ltd. Pays a dividend Rs. 2 per share with a growth rate of 7%. The risk free rate is 9% and the market rate of return is 13%. The company has a beta factor of 1.50. However due to a decision of the finance manager, beta is likely to increase to 1.75. Find out the present as well as the likely value of the share after the decision. **07**

**Q.5** Following details are given related to operation and capital structure of Sharaan Ltd.

| **Particulars** | **Situation-A** | **Situation-B** |
|---|---|---|
| Installed Capacity | 1,000 Units | 1,000 Units |
| Actual Production and Sales | 800 Units | 800 Units |
| Selling Price per Unit | Rs. 20 | Rs. 20 |
| Variable cost per Unit | Rs. 15 | Rs. 15 |
| Fixed Cost | Rs. 800 | Rs. 1500 |

| **Capital Structure** | **Equity Capital** | **Debt Capital** |
|---|---|---|
| Financial Plan I | 5,000 | 5,000 |
| Financial Plan II | 7,000 | 2,000 |

Cost of debt is 10%

**(A)** Calculate Financial Leverage, Operating Leverage and Combine leverage under **Situation A** with **Financial Plan I** **07**

**(B)** Calculate Financial Leverage, Operating Leverage and Combine Leverage under **Situation B** with **Financial Plan I** **07**

**OR**

**(A)** Calculate Financial Leverage, Operating Leverage and Combine leverage under **Situation A** with **Financial Plan II** **07**

**(B)** Calculate Financial Leverage, Operating Leverage and Combine Leverage under **Situation B** with **Financial Plan II** **07**

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## FVIF Table

| Period | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 11% | 12% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1.0100 | 1.0200 | 1.0300 | 1.0400 | 1.0500 | 1.0600 | 1.0700 | 1.0800 | 1.0900 | 1.1000 | 1.1100 | 1.1200 |
| 2 | 1.0201 | 1.0404 | 1.0609 | 1.0816 | 1.1025 | 1.1236 | 1.1449 | 1.1664 | 1.1881 | 1.2100 | 1.2321 | 1.2544 |
| 3 | 1.0303 | 1.0612 | 1.0927 | 1.1249 | 1.1576 | 1.1910 | 1.2250 | 1.2597 | 1.2950 | 1.3310 | 1.3676 | 1.4049 |
| 4 | 1.0406 | 1.0824 | 1.1255 | 1.1699 | 1.2155 | 1.2625 | 1.3108 | 1.3605 | 1.4116 | 1.4641 | 1.5181 | 1.5735 |
| 5 | 1.0510 | 1.1041 | 1.1593 | 1.2167 | 1.2763 | 1.3382 | 1.4026 | 1.4693 | 1.5386 | 1.6105 | 1.6851 | 1.7623 |

## FVIFA Table

| Period | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 11% | 12% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 1.0000 | 1.0200 | 1.0300 | 1.0400 | 1.0500 | 1.0600 | 1.0700 | 1.0800 | 1.0900 | 1.1000 | 1.1100 | 1.1200 |
| 2 | 2.0100 | 2.0200 | 2.0300 | 2.0400 | 2.0500 | 2.0600 | 2.0700 | 2.0800 | 2.0900 | 2.1000 | 2.1100 | 2.1200 |
| 3 | 3.0301 | 3.0604 | 3.0909 | 3.1216 | 3.1525 | 3.1836 | 3.2149 | 3.2464 | 3.2781 | 3.3100 | 3.3421 | 3.3744 |
| 4 | 4.0604 | 4.1216 | 4.1836 | 4.2465 | 4.3101 | 4.3746 | 4.4399 | 4.5061 | 4.5731 | 4.6410 | 4.7097 | 4.7793 |
| 5 | 5.1010 | 5.2040 | 5.3091 | 5.4163 | 5.5256 | 5.6371 | 5.7507 | 5.8666 | 5.9847 | 6.1051 | 6.2278 | 6.3528 |

## PVIF Table

| Period | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 11% | 12% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 0.9901 | 0.9804 | 0.9709 | 0.9615 | 0.9524 | 0.9434 | 0.9346 | 0.9259 | 0.9174 | 0.9091 | 0.9009 | 0.8929 |
| 2 | 0.9803 | 0.9612 | 0.9426 | 0.9246 | 0.9070 | 0.8900 | 0.8734 | 0.8573 | 0.8417 | 0.8264 | 0.8116 | 0.7972 |
| 3 | 0.9706 | 0.9423 | 0.9151 | 0.8890 | 0.8638 | 0.8396 | 0.8163 | 0.7938 | 0.7722 | 0.7513 | 0.7312 | 0.7118 |
| 4 | 0.9610 | 0.9238 | 0.8885 | 0.8548 | 0.8227 | 0.7921 | 0.7629 | 0.7350 | 0.7084 | 0.6830 | 0.6587 | 0.6355 |
| 5 | 0.9515 | 0.9057 | 0.8626 | 0.8219 | 0.7835 | 0.7473 | 0.7130 | 0.6806 | 0.6499 | 0.6209 | 0.5935 | 0.5674 |

## PVIFA Table

| Period | 1% | 2% | 3% | 4% | 5% | 6% | 7% | 8% | 9% | 10% | 11% | 12% |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | 0.9901 | 0.9804 | 0.9709 | 0.9615 | 0.9524 | 0.9434 | 0.9346 | 0.9259 | 0.9174 | 0.9091 | 0.9009 | 0.8929 |
| 2 | 1.9704 | 1.9416 | 1.9135 | 1.8861 | 1.8594 | 1.8334 | 1.8080 | 1.7833 | 1.7591 | 1.7355 | 1.7125 | 1.6901 |
| 3 | 2.9410 | 2.8839 | 2.8286 | 2.7751 | 2.7232 | 2.6730 | 2.6243 | 2.5771 | 2.5313 | 2.4869 | 2.4437 | 2.4018 |
| 4 | 3.9020 | 3.8077 | 3.7171 | 3.6299 | 3.5460 | 3.4651 | 3.3872 | 3.3121 | 3.2397 | 3.1699 | 3.1024 | 3.0373 |
| 5 | 4.8534 | 4.7135 | 4.5797 | 4.4518 | 4.3295 | 4.2124 | 4.1002 | 3.9927 | 3.8897 | 3.7908 | 3.6959 | 3.6048 |