Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 02– • EXAMINATION – SUMMER 2018

Subject Code: 2820003 **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.**
4. **Student can use PVIF, PVIFA, FVIF and FVIFA tables.**

Q. No. Question Text and Option **6**

Q.1 (a) Cost of retained earnings is

A. Nil
B. Nearly equal to cost of depreciation
C. Nearly equal to cost of equity
D. Nearly equal to average cost of debt

2. According to the rule of 69, the doubling period is equal to

A. 0.25 + (69/ Interest rate)
B. 0.35 + (69/ Interest rate)
C. 0.69 + (0.35/ Interest rate)
D 0.69 + (0.25 / Interest rate)

3. Which of the following model/models is /are used for cash management?

A. Baumol
B. Miller and Orr
C. Cash Budgeting
D. All of these

4. Which of the following capital structure theories talks about "Arbitrage Mechanism"?

A. Traditional
B. NI
C. Modigliani and Miller
D. NOI

5. Which of the following Models uses beta ?

A. Linter
B. CAPM
C. EOQ
D. None of these

6. If you do not know the discount rate for a project, the right investment criterion to be used will be

A. IRR
B. NPV
C. BCR
D. MIRR

Q.1 **(b)** 1. Lead time **04**
2.Financial Breakeven Point
3. Operating Cycle
4. 2/10, net 30

Q.1 **(c)** What is Payback Period? Explain with suitable example how it is used in capital budgeting decisions? **04**

Q.2 **(a)** Explain in detail the factors that influence working capital requirements of a business. **07**

	(b)	The bond of Religare Limited which is having the face value of Rs1000 and coupon rate of 12 per cent will mature after 6 years .You are required to find the value of this bond if, the discount rate is 16 percent.	**07**

OR

	(b)	Miss Rajeshwari has recently completed her MBA from GTU and has been placed in a very reputed Multinational Company with very attractive salary. She is planning to purchase a flat after 8 years when it is expected to cost Rs 80 lacs. You are required to advice her how much she should save and invest it annually, if the rate of interest applicable to her is 9%.The investments will be made by her in equal amounts at the end of each year.	**07**
Q.3	**(a)**	Explain the Walter Model of Dividend Theory with suitable illustrations.	**07**
	(b)	The following is the information available about inventory purchased by Kiyara Limited Annual Usage=6000 Units Fixed Cost Per Order= Rs 400 Purchase Price Per Unit= Rs 100 Carrying cost= 20 per cent of inventory value Find out Economic Order Quantity. Now assume that, the supplier has given the proposal of giving discount of Rs 5 per unit if order size is 1000 units. Should the company accept this offer?	**07**

OR

Q.3	**(a)**	"Though there are various sources of working capital financing, commercial banks still remain one of the most preferred and popular source for the same." Do you agree to this statement? Explain how banks provide financing for working capital.	**07**
	(b)	The following details are available from the cost sheet of the company	**07**

Particulars	Amount per unit(Rs)
Raw material	80
Direct labour	30
Overhead	60
Total cost	170
Profit	30
Selling Price	200

The following other details are available

(i) Raw materials in stock, on an average one month; Materials in process , on an average half a month; finished goods in stock, on an average one month.

(ii) Credit allowed by suppliers is one month and credit allowed to debtors is two months; lag in payment of wages is one and a half weeks; lag in payment of overhead expenses is one month; one fourth of the output is sold against cash; cash in hand and at bank is expected to be Rs 25000.

You are required to prepare a statement showing working capital needed to finance a level of activity of 1,04,000 units of production.

Q.4	**(a)**	Which are the various sources of long term finance used by companies? Briefly mention both merits and demerits of each of these sources.	**07**

(b) The following information is given about Fintech Limited **07**

Particulars	Rs in lacs
EBIT	1120
PBT	320
Fixed Cost	700

From this information you are required to calculate Degree of Operating Leverage, Degree of Financial Leverage and Degree of Total Leverage for the company.

OR

Q.4 **(a)** Shaping an appropriate capital structure is considered one of the most important roles of a finance manager. According to you what factors a finance manager must consider for deciding capital structure of a firm? **07**

(b) The following data is available about Mapro Limited **07**

Particulars	Rs in lacs
Sales	20
Variable costs	14
Fixed Cost	4 (including 15% interest on debt of Rs 10 lacs)

From this information you are required to calculate Degree of Operating Leverage, Degree of Financial Leverage and Degree of Total Leverage for the company.

Q.5 Mr. Rustom Rustogi is a production manager in a growing company. He is planning to buy a machine. The following are details provided by him in this regard. **14**

The machine would involve a cash outlay of Rs 6,00,000 and working capital of Rs 80,000.The expected life of the machine is six years and at the end of the life of the machine it will have zero salvage value. The company will use Straight Line method for depreciating this machine and the tax rate applicable to the company is 50 per cent. The estimated before-tax cash flows are given below

Before tax cash flows (Rs'000)

Year	1	2	3	4	5	6
	210	180	160	150	120	100

The cost of capital for the company is 12 per cent. You are asked the following questions by Mr Rustogi. You have to make the calculations and answer the same.

What is the NPV of this machine? Should he buy the machine or not?

OR

Q.5 Food Fiesta is a growing confectionary firm. The following is the present capital structure of the firm **14**

Particulars	Amount (Rs in Lacs)
Equity shares of Rs 100 each	20
Retained Earnings	10
9% Preference Shares	12
7% Debentures	8
Total	50

The Company's EBIT is at the rate of 12 percent on its capital employed which will remain unchanged after expansion. The expansion involves additional financing of Rs 25 lacs for which the following alternatives are available to it.
(i) Alternative 1: Issue 20,000 equity shares at a premium of Rs 25 per share
(ii) Alternative 2: Issue 10% preference shares
(iii) Alternative 3: Issue 8% Debentures

It is estimated that the P/E Ratio in case of equity shares, preference shares and debentures financing would be 15, 12 and 10 respectively. The tax rate is 35 per cent.

The owner of the company Mr Punj is in dilemma regarding which plan of financing he should select.

However, he is sure that his goal is to select the plan in which MPS (Market Price Per Share) is the highest. He has consulted you and asked you to calculate MPS under each of these three plans and suggest him which plan should be chosen.

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