

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER 02– • EXAMINATION – SUMMER 2015

Sample Paper

Subject Code: 2820003
Subject Name: Financial Management

Date: // 2015

Time:

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) Attempt the following Multiple Choice Questions (06 MARKS)

- a. The of a security is the present value of cash flow stream expected from security, discounted at a ROR.
 - i. Intrinsic Value
 - ii. Book Value
 - iii. Market Value
 - iv. Liquidity Value
- b. Process of issuing stocks or shares in the primary capital market is called-
 - i. Follow-on Public offer
 - ii. Preferential Allotment
 - iii. Initial Public Offer
 - iv. Right Issue
- c. In CAPM model R_f is-
 - i. Risk Associated with security
 - ii. Risk-free rate of return
 - iii. Market return of exchange
 - iv. Risk Premium
- d. Amount of capital a company can potentially issue as per MOA represent-
 - i. Authorised Capital
 - ii. Subscribed Capital
 - iii. Issued Capital
 - iv. Paid-up Capital
- e. Role of Lead Manager linked to-
 - i. Structure the Issue
 - ii. Monitor the issue
 - iii. Preparation of draft prospectus
 - iv. All of the above

f. Miller and Modigliani position is similar to

- i. Net Income approach
- iii. Net operating approach
- ii. Traditional approach
- iv. Trade-off theory

Q.1. (B) Explain the following Terms: (08 MARKS)

- a. Venture Capital
- b. Yield to Maturity
- c. Agency Cost

Q.2. (A) (i) Mr. Daruwala borrows from Bank for 5 years worth Rs. 20,00,000 to buy a new car named Renault Duster. If Mr. Daruwala wants to pay an equal annual installment at the end of every year, and if the rate of interest is 10%, Calculate the amount of installment every year. Also prepare Loan amortization schedule. (04 MARKS)

(ii) Mr. Sharma is planning for his daughter's marriage after 10 years. He estimated the total expenses for the marriage to be Rs. 25,00,000. How much he should invest annually at the end of year in mutual funds which give annual return of 15%? (03 MARKS)

Q.2. (B) Discuss the role of a financial manager in a company. (07 MARKS)

OR

Q.2. (B) Explain the process of IPO. (07 MARKS)

Q.3. (A) A company is considering an investment proposal to install a new machine. This project will cost Rs.1,00,000 and will have 5 years life with no salvage value. Tax rate is 50 percent; the company follows straight line method of depreciation. The earnings before depreciation and tax as follows.

Years	1	2	3	4	5
EBDT(Rs.)	20,000	22,000	28,000	30,000	50,000

Evaluate the project using

- (1) Pay Back Period
 - (2) Profitability Index at 10%
 - (3) Accounting Rate of Return
- (07 MARKS)

Q.3. (B) What is the relationship between risk and return as per CAPM? (07 MARKS)

OR

Q.3. (A) Amar Electronics is evaluating an expansion project that is expected to cost 20 million and generate an annual after-tax cash-flow of Rs. 4 million for next 10 years. The tax rate for the company is 35%. Amar Electronics has a target debt-equity ratio of 1:1. Its cost of equity is 16% whereas its pre-tax cost of debt is

14%. The floatation cost of equity is 12% whereas the floatation cost of debt is 2%. What is the NPV of the expansion project after considering the floatation cost? (07 MARKS)

Q.3. (B) Explain the Leverage Irrelevance Theory citing relevant example.(07 MARKS)

Q.4. (A) Installed capacity, 8,000 units, Actual production and sales 50 % of the capacity, Selling price, Rs 50 per unit and Variable cost, Rs 25 per unit, Fixed cost: 20,000, Capital structure is as follows

Financial plan	A	B
Equity Rs	100000	150000
10% Debenture Rs.	50000	150000

Calculate (a) the operating leverage, (b) financial leverage and (c) combined leverage from the above data for financial plans, A and B. (07 MARKS)

Q.4. (B) Explain the reasons for paying dividend and dimensions of dividend policy. (07 MARKS)

OR

Q.4. (A) From the following data, prepare a statement showing working capital requirement for the year 2009.

- (i) Estimated output for the year 1,30,000 units (52 weeks).
- (ii) Stock of raw materials 2 weeks and material in process for 2 weeks, 50% of wages and overheads are incurred.
- (iii) Finish goods remain in storage for 2 weeks.
- (iv) Creditors 2 weeks.
- (v) Debtors 4 weeks.
- (vi) Outstanding wages and overheads 2 weeks each.
- (vii) Selling price per unit Rs.15.
- (viii) Analysis of cost per unit is as follows.

Raw materials – Rs. 5 per unit.

Labour Rs. 3 per unit

Overheads Rs. 2 per unit.

Profit Rs. 5 per unit.

Assume the operations are evenly spread throughout the year (07 MARKS)

Q.4. (B) Explain in detail various sources of working capital financing. (07 MARKS)

Q.5. (A) Solve the following case (14 MARKS)

(1) Sangeeta Enterprises is determining the cash flow for a project involving replacement of an old machine by a new machine. The old machine bought a few years ago has a book value of Rs.2,800,000 and it can be sold to realise a post tax salvage value of Rs.2,200,000. It has a remaining life of five years after which its net salvage value is expected to be Rs.900,000. It is being depreciated annually at a rate of 30 percent the WDV method. The working capital associated with this machine is Rs.1,000,000. The new machine costs Rs.8,000,000. It is expected to fetch a net salvage value of Rs.3,500,000 after five years. The depreciation rate applicable to it is 25 percent under the WDV method. The new machine is expected to bring a saving of Rs.1,000,000 annually in manufacturing costs (other than depreciation). The incremental working capital associated with the new machine is Rs.600,000. The tax rate applicable to the firm is 33 percent.

Help Sangeeta Enterprises in estimating the cash flow associated with the replacement project.

OR

Q.5. (A) Solve the following case (14 MARKS)

Prepare a Cash budget for the months of May, June and July 2009 on the basis of the following information:

(1) Income and Expenditure forecasts:

Months	Credit Sales	Credit Purchase	Wages	Manufacturing Exp	Office exp	Selling Exp.
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
March	120000	72000	18000	8000	4000	8000
April	124000	76000	16000	6000	3000	10000
May	130000	66000	20000	9000	5000	9000
June	116000	70000	17000	7000	4000	7000
July	112000	78000	19000	8000	2000	9000
Agust	120000	68000	16000	6000	3000	9000

(2) Cash balance on 1st May 2009, Rs.16,000.

(3) Plant costing Rs.32,000 is due for delivery in July, payable 10% on delivery and the balance after 3 months.

(4) Advance tax of Rs.16,000 each is payable in March and June.

(5) Period of credit allowed (i) by suppliers- two months and (ii) to customers one month.

(6) Time lag in payment of manufacturing expenses- $\frac{1}{2}$ month.

(7) Time lag in payment of office and selling expenses- 1 month.