

Seat No.: _____

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GUJARAT TECHNOLOGICAL UNIVERSITY
MBA(PART TIME) – SEMESTER III – EXAMINATION – SUMMER 2019**Subject Code: 3539901****Date:13/05/2019****Subject Name: Financial Management****Time: 02:30 PM To 05:30 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 terms **14**
- (a) Annuity
 - (b) Perpetuity
 - (c) Capital Structure
 - (d) Financial Leverage
 - (e) Inventory Management
 - (f) WACC
 - (g) Working Capital

- Q.2 (a)** What is Financial Management? Explain the four main functions of Financial Management. **07**

- (b)** The Arjun Company has the following capital structure on 30 June 2018. **07**

Ordinary Share (200000 shares)	4,000,000
10% Preference Share	1,000,000
14% Debenture	3,000,000

The share of the company sells for Rs. 20. It is expected that company will pay next year a dividend of Rs. 2 per share, which will grow at 8% forever. Assume a 35 per cent tax rate. You are required to calculate WACC on the basis of existing capital structure.

OR

- (b)** A firm has issued 9%, 10 year bond with Rs. 1000 par value that pays interest annually, Compute the value of bond if required rate of return is 10%. **07**

- Q.3 (a)** Alpha Ltd & Beta Ltd operate on the same line of business of manufacturers of Rubber components. However their cost structure & Financial structures differs substantially. An analysis of their financial performance is revealed in following data. **07**

Particular	Alpha Ltd	Beta Ltd
Sales	5,00,000	10,00,000
Less: Variable Cost	2,00,000	3,00,000
Contribution	3,00,000	7,00,000
Less: Fixed Cost	1,50,000	4,00,000
EBIT	1,50,000	3,00,000
Less: Interest	50,000	1,00,000
EBT	1,00,000	2,00,000

Calculate the following.

1. Degree of Operating leverage
2. Degree of Financial Leverage

3. Degree of Combined Leverage

- (b) Explain the Gordon & Walter Model of Dividend Decision theory 07

OR

- Q.3** (a) You are appointed as Finance Manager of Company. The company provides the following data: 07

Direct Material: Rs. 52 per unit

Direct Labour: Rs. 19.5 per unit

Overheads: Rs. 39 per unit

Selling Price: Rs. 130 per unit

The following additional information are available:

Average raw material in stock: 1 Month, Average material in progress: 0.5

month, Average finished goods in stock: 1 month, Credit allowed by suppliers:

1 month, Credit allowed to debtors: 2 Months, Time lag in payment of wages:

1.5 weeks, overheads: 1 month. 25% of sales are on cash basis. Cash balance is expected to be Rs. 1,20,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 70,000 units of output. You may assume that production carried on evenly, throughout the year and wages and overhead accrue similarly.

- (b) Explain the Net Income (NI) and Net Operating Income (NOI) approaches with graph. 07

- Q.4** Zydus Ltd has two mutually exclusive proposal A & B requiring initial outlay of Rs. 100,000 each. Both Projects have life of 7 Years with following cash flows.

Year	Project A	Project B
1	6,000	50,000
2	10,000	35,000
3	25,000	25,000
4	30,000	7,000
5	40,000	10,000
6	45,000	10,000
7	50,000	15,000

- (a) Calculate NPV if Cost of Capital is 10% 07
- (b) Calculate NPV if cost of capital is 15% 07

OR

- Q.4** (a) Calculate PI if Cost of Capital is 10% 07
- (b) Calculate PI if cost of capital is 15% 07

- Q.5** As an investment advisor, you have been approached by a client called Sathya for advice on some financial matters. Sathya is 40 years old and has Rs.3,000,000 in bank. He plans to work for 20 years more and retire at the age of 60. His present salary is Rs.1,800,000 per year. Assume that yearly expenditure of Sathya is Rs. 800,000.

Sathya has decided to invest his bank balance and future savings in a balanced mutual fund scheme which he believes will provide a return of 12 percent per year.

Sathya seeks your help in answering several questions given below. In answering these questions, ignore the tax factor.

- (a) Calculate amount of saving (Balance Mutual Fund) at the age of 60 years of Mr. Sathya. For simplicity assume that he receive full salary at the end of year. **07**
- (b) From his saving (Balance Mutual Fund) if Mr. Sathya wants to receive equal annual amount at the end of each year for consumption for next 20 Year (Life Expectancy 80 Years), calculate the annual amount. **07**

OR

- Q.5**
- (a) Calculate amount of saving (Balance Mutual Fund) at the age of 60 years of Mr. Sathya if yearly expenditure of Mr. Sathya is Rs. 1,000,000 & return on Balance mutual fund is 13%. For simplicity assume that he receive full salary at the end of year. **07**
 - (b) From his saving (Balance Mutual Fund) if yearly expenditure of Mr. Sathya is Rs. 1,000,000 & return on Balance mutual fund is 13%., if Mr. Sathya wants to receive equal annual amount at the end of each year for consumption for next 20 Year (Life Expectancy 80 Years), calculate the annual amount. **07**

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