Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA (PART TIME)– SEMESTER 3– EXAMINATION – WINTER 2018

Subject Code:3539901 **Date:03/12/2018**
Subject Name: Financial Management
Time:10:30am To 01:30pm **Total Marks: 70**
Instructions:
1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 **Answer the following questions.** **14**
1 Mention any two features of equity shares.
2 What is the meaning of capital budgeting?
3 Explain systematic and unsystematic risk.
4 Explain the concept of Wealth Maximisation.
5 Discuss the concept of operating cycle.
6 Explain the ABC method of inventory control.
7 What is Annuity? Give examples.

Q.2 (a) Discuss the emerging role of Finance manager in India. **07**

Q.2 (b) The risk free return is 12%. The return on market portfolio is 15%. Stock A's beta is 1.2. Its dividends and earnings are expected to grow at the constant rate of 5%. If the previous dividend per share of the stock was Rs. 5.00, what would be the intrinsic value per share of stock A? If the expected growth rate increases to 8%, what will be the new intrinsic value per share of Stock A? **07**

OR

Q.2 (b) As a winner of the competition, you have the following two options. **07**
1. Rs. 10,000 per year for 5 years.
2. Rs.50,000 at the end of 5 years.
If the interest rate is 10%, which option would you select? Show the calculation.

Q.3 (a) Write a note on Preference Shares and Debentures as sources of Long term finance. **07**

Q.3 (b) The following information is available for Arjun Limited. **07**
Net Operating Income: Rs. 4,00,000
Interest on debt: Rs. 10,000
Cost of Equity: 15%
Cost of Debt: 12%
1. What is the average cost of capital for Arjun Limited?
2. What happens to the average cost of capital of the company, if the company employs Rs. 10,00,000 of debt to finance the project which earns operating income of Rs. 20,000. Assume that there are no taxes.

OR

Q.3 (a) Explain the Determinants of Dividend Policy. **07**

Q.3 (b) Calculate the Operating and Financial Leverage for Krishna and Sudama Limited. **07**

Particulars	Krishna Ltd	Sudama Ltd
Output (Units)	2,00,000	1,00,000
Administration Expenses (Rs)	5,00,000	6,00,000
Variable Cost per Unit (% of Selling Price)	10%	10%
Selling Price per Unit (Rs.)	Rs. 10	Rs. 15
Interest Expenses (Rs.)	Rs. 2,50,000	Rs. 1,50,000

Q.4 Cool & Calm co. ltd has provided the following information.

Production	72000 units per year
Sales Price	Rs. 100 per unit
Raw Material Cost Per Unit	30% of Sales Price
Labour Cost Per Unit	20% of Sales Price
Overheads Per Unit	10% of Sales Price

Credit sales are 70%. Stock of raw material must be equal to the requirement of 20 days and finished goods stock will be kept for half month. Work in Progress is at 50% completion stage and that will remain in stock for 14 days.

Purchases are made with one month credit and sales are made with one and half month credit. Time lag in payment of wages and overheads is one month. Cash balance required is Rs. 20000. Contingency is 10%. Assume 360 days in a year.

Q. 4 (a) Estimate the working capital requirement for the company on cash cost basis. Show the calculation. **07**

Q. 4 (b) At present the company is following aggressive policy for financing its Current Assets. You have recently joined this company and you believe that this is not the right approach. You want to convince the management to shift to Matching Principle. Present your arguments for the same. **07**

OR

Q. 4 (a) The company wants to know the investment in Current Assets (CA) and Current Liability (CL). Calculate the required investment in CA and CL. **07**

Q. 4 (b) Cool & Calm Co. Ltd. is in to manufacturing and sales of Air Conditioners (AC). The company does not have the systematic approach for determining the working capital requirement. The management seeks your consultation. Kindly guide the management as to which factors can influence the working capital requirement of the company and how these factors can be managed in a systematic way so as to reduce the investment in working capital. **07**

Q.5 A Company has two promising proposals, Project A and Project B, for expanding its operations. It is not possible for the firm to accept both the proposals. The management needs to select one of the two proposed projects. The capital cost of Project A will be Rs. 1,20,000, while Project B will cost Rs. 1,00,000. The expected life of both the projects will be 4 years. Assume that there is no salvage value at the end of the project. The Profit After Tax (PAT) for both the projects are given as below:

Year	PAT of Project A	PAT of Project B
1	60,000	10,000
2	20,000	10,000
3	10,000	20,000
4	50,000	1,00,000

Based on the above information, answer the following.

Q. 5 (a) According to NPV method, which of the above two projects should be selected? The cost of capital is 10%. **07**

Q. 5 (b) According to Payback method, which of the above two projects should be selected? **07**

OR

Q. 5 (a) As per Profitability Index (PI) at 12%, which of the above two projects should be selected? **07**

Q. 5 (b) The management of your company is confused regarding the evaluation criteria. Should they consider the outcome of NPV or IRR for any project in future? As the expert of capital budgeting, kindly guide the management. **07**