

**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%. Determine the value of bond in each situation. **07**
- 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 5<sup>th</sup> 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%              |
| <b>Total</b>       | <b>6,50,000</b> | <b>8,50,000</b> |                 |

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

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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

- What is the Annual Total Cost of existing inventory policy?
- 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.

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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**

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

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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 |