Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–II • EXAMINATION – SUMMER 2018

Subject Code: 820003 **Date:25/05/2018**

Subject Name: Financial Management (FM)

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	(a)	Differentiate between Wealth Maximization and Profit Maximization.	07
Q.1	(b)	Under what circumstances do the net present value and internal rate of return methods differ? Which method would you prefer?	07
Q.2	(a)	What is an ordinary share? What are its features? How does it differ from a preference share and a debenture?	07
	(b)	Compute the present value for a bond that promises to pay interest of ₹ 150 a year for thirty years and ₹ 1000 at maturity .The first interest payment is paid one year from now. Use a rate of discount of ₹ 8 per cent.	07
		OR	
	(b)	The share of Premier Limited will pay a dividend of ₹3 per share after a year. It is currently selling at ₹ 50, and it is estimated that after a year the price will be ₹ 53.What is the present value of the share if the required rate of return is 10 percent? Should the share be bought?	07
Q.3	(a)	Explain the assumptions and implications of the NI approach and the NOI approach. Illustrate your answer with hypothetical examples.	07
	(b)	Compute the rate of return of the following projects: Which project would you recommend? Why?	07

Projects	Cash flow ₹-C0	Cash flow ₹-C1	Cash flow ₹-C2	Cash flow ₹-C3
X	-20,000	8,326	8,326	8,326
Q	-20,000	0	0	24,978

		OR	
Q.3	(a)	Explain the nature of the factors which influence the dividend policy of a firm.	07
	(b)	A Company has ₹ 1, 00,000 shares of ₹ 100 at par of preference shares outstanding at 9.75 per cent dividend rate. The current market price of the preference share is ₹ 80.What is its cost?	07
Q.4	(a)	What is the role of credit terms and credit standards in the credit policy of a firm?	07
	(b)	X & Co is desirous to purchase a business and has consulted you, and one point on which you are asked to advise them is the average amount of working capital which will be required in the first year's working. You are given the following estimates and are instructed to add 10 per cent to your computed figure to allow for contingencies:	07

Particulars	Figures for the year (₹)
Average amount backed up for stocks: Stocks of finished product Stocks of stores, materials, etc	 5,000 8,000
Average credit given: Inland sales- 6 weeks' credit Export sales – One and Half weeks' credit	 3,12,000 78,000
Lag in payment of wages and other outgoings: Wages- One and Half weeks' Stocks, Materials, etc- One and Half weeks' Rent, royalties, etc- 6 months Clerical staff- Half month Managers- Half Month Misc expenses- One and Half months	 2,60,000 48,000 10,000 62,000 4,800 48,000
Payment in advance: Sundry expenses (paid quarterly in advance) Undrawn profits on the average throughout the year	 8,000 11,000

Set up your calculations for the average amount of working capital required.

OR

Q.4	**(a)**	Illustrate with example the modus operandi of preparing a cash budget.	**07**
	(b)	A firm's estimated demand for a material during the next year is 2,500 units. Acquisition costs are ₹ 400 per order and carrying cost is ₹ 50 per unit. The safety stock is set at 25 per cent of the EOQ.The daily usage is 10 units and lead time is 10 days. Determine (a) EOQ (b) The safety stock and ((a) The reorder point.	**07**
Q.5	**(a)**	X Co. has a net operating income of ₹ 2, 00,000 on an investment of ₹ 1,000,000 in assets. It can raise debt at a 16 per cent of interest. Assume that taxes do not exist. (a) Using the NI approach and an equity-capitalization rate of 18 percent, compute the total value of the firm and the weighted average cost of capital if the firm has (i) no debt,(ii) ₹ 3,00,000 debt , (iii) ₹ 6,00,000 debt. (b) Using the NOI approach and an overall capitalization rate of 12 per cent, compute the total value of the firm, value of shares and the cost of equity if the firm has (i) no debt, (ii) ₹ 3,00,000 debt, (iii) ₹ 6,00,000 debt.	**14**
		OR	
Q.5	**(a)**	Explain the rationale of the Tandon Committee's recommendations.	**07**
	(b)	Explain the importance of trade credit and accruals as sources of working capital. What is the cost of these sources?	**07**

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