Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

M.B.A.- SEMESTER – II • EXAMINATION – WINTER 2012

Subject code: 820003 **Date: 07-01-2013**

Subject Name: Financial Management

Time: 10:30 am – 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)** A proforma cost sheet of a company provides the following particulars: **07**

Particulars	Amount per unit
Elements of costs:	
Raw material	Rs. 80
Direct labour	30
Overheads	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available: Raw materials in stock, on average, one month; Materials in process (completion stage, 50 per cent), on average, half a month; Finished goods in stock, on average, one month.

Credit allowed by suppliers is one month; Credit allowed to debtors is two months; Average time-lag in payment of wages is 1.5 weeks and one month in overhead expenses; one-fourth of the output is sold against cash; cash in hand and at bank is desired to be maintained at Rs 3,65,000. You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production.

You may assume that production is carried on evenly throughout the year, and wages and overheads accrue similarly. For calculation purposes, 4 weeks may be taken as equivalent to a month.

(b) Briefly explain the various tools and techniques used for inventory management. **07**

Q.2 **(a)** Explain as to how the wealth maximization objective is superior to the profit maximization objective **07**

(b) The current dividend on an equity share of Falcon Limited is Rs.8.00 on earnings per share of Rs. 30.00. **07**

(i) Assume that the dividend per share will grow at the rate of 20 percent per year for the next 5 years. Thereafter, the growth rate is expected to fall and stabilise at 12 percent.

Investors require a return of 15 percent from Falcon's equity shares. What is the intrinsic value of Falcon's equity share?

OR

(b) Anurag Limited borrows Rs.2,000,000 at an interest rate of 12 percent. The loan is to be repaid in 5 equal annual instalments payable at the end of each of the next 5 years. Prepare the loan amortization schedule. **07**

Q.3 **(a)** Under what circumstances do the Net Present Value (NPV) and the Internal Rate of Return (IRR) methods differ? What method would you **07**

prefer and why?

(b) A company has to make a choice between two projects namely A and B. The initial capital outlay of two Projects are Rs.1,35,000 and Rs.2,40,000 respectively for A and B. There will be no scrap value at the end of the life of both the projects. The opportunity Cost of Capital of the company is 16%. The annual incomes are as under: **07**

Year	Project A	Project B
1	0	60,000
2	30,000	84,000
3	1,32,000	96,000
4	84,000	1,02,000
5	84,000	90,000

You are required to calculate for each project:

(i) Net present value

(ii) Discounted payback period

(iii) Profitability index

OR

Q.3 **(a)** The following is the capital structure of Simons Company Ltd. as on 31.12.2011. **07**

	Rs.
Equity shares : 10,000 shares (of Rs. 100 each)	10,00,000
10% Preference Shares (of Rs. 100 each)	4,00,000
12% Debentures	6,00,000

The market price of the company's share is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared for the year 2011. The dividend growth rate is 6%:

(i) If the company is in the 50% tax bracket, compute the weighted average cost of capital.

(ii) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs. 10 lakhs bearing 14% rate of interest, what will be the company's revised weighted average cost of capital? This financing decision is expected to increase dividend from Rs. 10 to Rs. 12 per share. However, The market price of equity share is expected to decline from Rs. 110 to Rs. 105 per share.

(b) "Generally the cost of equity funds is higher than the cost of debt funds." Critically evaluate the statement. **07**

Q.4 **(a)** What is the hire purchase financing? How does it differ from the lease financing? **07**

(b) Beta Limited and Theta Limited operate in the same line of business of manufacture of rubber components. However their cost structures and financing structures differ substantially. An analysis of their financial performance has revealed following data: **07**

Rs Lacs	**Beta Ltd**	**Theta Ltd**
Sales	750	1,100
Variable Cost	300	500
Fixed Cost	250	200
Operating Profit, EBIT	200	400
Interest	75	80
Profit Before Tax	125	320

Find out a) Degree of Operating Leverage, b) Degree of Financial Leverage for both.

What is your interpretation of DOL and DFL?

OR

Q.4 **(a)** Discuss the salient features of debentures as a source of finance. Also discuss its pros and cons. **07**

Q.4 **(b)** Explain net income and net operating income approach of capital structure in brief. **07**

Q.5 **(a)** Following are the details of Maya Ltd. **07**

Earnings of the company	Rs.10,00,000
Dividend payout ratio	60%
No.of shares outstanding	2,00,000
Rate of return on investment	15%
Equity capitalization rate	12%

(i) What would be the market value per share as per Walter's model?

(ii) What is the optimum dividend payout ratio according to Walter's model and the market value of company's share at that payout ratio?

(b) Explain a stock split? Why is it used? How does it differ from a bonus shares **07**

OR

Q.5 **(a)** ABC Ltd has a capital of Rs. 10,00,000 in equity shares of Rs. 100 each. The shares are currently quoted at par. The company proposes a dividend of Rs. 10 per share at the end of current financial year. The capitalization rate to the risk to which company belongs is 12%. **07**

What will be the market price of the share at the end of the year if

(i) Dividend is not declared

(ii) Dividend is declared

(iii) Assuming that the company pays the dividend and has net profit of Rs. 5,00,000 and makes new investments of Rs. 10 lakhs during the period, how many new shares must be issued? Use the M.M. model.

(b) What is meant by the buyback of shares? What are its effects? Is it really beneficial to the company and shareholders? **07**

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