Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

M.B.A -IInd SEMESTER–EXAMINATION – MAY/JUNE- 2012

Subject code: 820003 **Date: 30/05/2012**

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)** Explain in detail of various objections to the financial goal of Profit maximization **07**

(b) **07**

A company is currently selling 100,000 units of its product at Rs.50 each unit . At the current level of production , the cost per unit is Rs.45 ,variable cost per unit is Rs.40 . The company is currently extending one month's credit to its customers . It is thinking of extending credit period to two months in the expectation that sales will increase by 25 per cent . If the required rate of return (before tax) on the firm's investment is 30 per cent , is the new credit policy desirable ?

Q.2 **(a)** **07**

Consider the following information for Kaunark Enterprise :

Particulars	Rs in lakh
EBIT	1,120
PBT	320
Fixed Cost	700

Calculate percentage in earnings per share if sales increased by 5 per cent

(b) **07**

Explain the essence of Walter's model while stating underlying assumptions of the model . What is Walter's formula for determining market price of shares ?

OR

(b) **07**

The Vikas Engineering Co Ltd currently has one lakh outstanding shares selling at Rs.100 each . The firm has net profits of Rs.10 lakh and wants to make new investments of Rs.20 lakh during the period . The firm is also thinking of declaring a dividend of Rs.5 per share at the end of the current fiscal year . The firm's opportunity cost of capital is 10 per cent . What will be the price of the share at the end of the year if (i) a dividend is not declared : (ii) a dividend is declared . (iii) How many new shares must be issued . (Apply MM Hypothesis) .

Q.3	**(a)**	Explain the concept , merits and demerits of IRR method	**07**
	(b)	A firm finances all its investments by 40 per cent debt and 60 per cent equity . The estimated required rate of return on equity is 20 per cent after taxes and that of the debt is 8 per cent after taxes . The firm is considering an investment proposal costing Rs.40,000 with an expected return that will last forever . What amount (in rupees) must the proposal yield per year so that the market price of the share does not change ? Show calculations to prove your point .	**07**

OR

Q.3	**(a)**	Equipment A has a cost of Rs.75,000 and net cash flow of Rs.20,000 per year , for six years . A substitute equipment B would cost Rs.50,000 and generates net cash flow of Rs.14,000 per year for six years . The required rate of return of both the equipments is 11 per cent . Calculate the IRR and NPV for the equipments . Which equipments should be accepted and why ?	**07**
	(b)	Write short notes on (i) Salvage value (ii) Components of cash flows in case of an investment .	**07**
Q.4	**(a)**	Which alternative would you choose : (a) an annuity of Rs.5000 at the end of each year for 30 years : b) an annuity of Rs.6,600 at the end of each year for 20 years : c) Lump sum payment of Rs.1,00,000 at the end of 10 years .d) Rs.50,000 , in cash right now ? In each case , the time value of money is 10 per cent	**07**
	(b)	Write short notes on (i) Economic Order Quantity (ii) Reorder Point (iii) Safety stock	**07**

OR

Q.4	**(a)**	A company expects to pay a dividend of Rs.7 next year , which is expected to grow at 6 per cent . It retains 30 per cent of earnings . Assume a capitalization rate of 10 per cent . You are required to (i) calculate the expected earnings per share (EPS) next year , (ii) Return on Equity (ROE) and (iii) the value of growth opportunities	**07**
	(b)	Explain in detail of motives for holding cash	**07**
Q.5	**(a)**	Define ‘ Lease and explain in brief about i) Operating lease (ii) Financial lease (iii) Myths about leasing	**07**
	(b)	Explain the merits stable dividend policy	**07**

OR

Q.5	**(a)**	Define a business plan and briefly explain different elements of business plan	**07**
	(b)	. Explain the concept of ‘ Buyback of Shares ‘ and advantages .as well as drawbacks of buyback of shares	**07**

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