Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA(PM) – SEMESTER –9 • EXAMINATION – WINTER 2016

Subject Code:4390205 **Date: 23/11/2016**

Subject Name: Basic 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 **(a)** Ms. Nidhi borrows Rs.50,000 loan to purchase her first Hero Maestro. The rate of interest is 12% and the repayment period is 4 years. Calculate the annual installments and prepare the loan amortization schedule for her. **07**

(b) List and explain the various sources of long term finance. **07**

Q.2 **(a)** *"A financial manager is a person who is responsible, in a significant way, to carry out the finance functions. He plays a vital role in shaping the fortunes of the enterprise."*
Do you agree with the given statement? What are the roles and functions of a financial manager in an organization? **07**

(b) Mr. Mishra plans to send his son for higher studies abroad after 10 years. He expects the cost of these studies to be Rs 10,00,000. How much should he save annually to have a sum of Rs 10,00,000 at the end of 10 years, if the interest rate is 12 percent? **07**

OR

(b) Vraj Ltd is expecting to pay a dividend of Rs. 4 per equity share now. Its dividends are expected to grow at 15% for the next 5 years and then at the rate of 10% indefinitely. Find out the present value of its equity share, if the capitalization rate is 12%. **07**

Q.3 **(a)** A machine will cost Rs 5,00,000 and will provide annual net cash inflow of Rs. 1,50,000 for 6 years. The cost of capital is 15%. Calculate the machine's net present value, profitability index and the payback period. Should the machine be purchased? **07**

(b) M/s Albert & Co. has the following capital structure as on 31st December, 2015: **07**

Sources of funds	**Rs.**
Equity capital(Rs 10. Each)	15,00,000
11% Preference Capital (Rs. 100 each)	1,00,000
Retained earnings	20,00,000
13.5% Debentures (Rs 100 each)	10,00,000
15% Term Loans	12,50,000

Calculate the weighted average cost of capital given the following information :

- The next expected dividend on equity share is Rs. 3.60 ; the dividend per share is expected to grow at a rate of 7%. The market price per share is Rs. 40.

– The 11% Preference shares are currently selling at Rs 75 per share.
– Debentures, redeemable after six years are selling at Rs. 80 per debenture.
– The income tax rate for the company is 40%.

OR

Q.3 **(a)** Explain non discounting technique of payback period. How is it calculated? Explain with example. **07**

(b) The Board of Directors of Nanak Engineering Co. Pvt Ltd requests you to prepare a statement showing the working capital requirements for a level of activity of 1,56,000 units of output of production. **07**

The following information is available for your help :

	Per unit Rs
Raw Materials	90
Direct Labour	40
Overheads	75
Total costs	205
Profit	60
Selling price per unit	265

– Raw materials are in stock on average, one month
– Materials are in process, on average 2 weeks
– Finished goods are in stock, on average, one month
– Credit allowed by suppliers, one month
– Time lag in payments from debtors, 2 months
– Lag in payment of wages, one and a half week
– Lag in payments of overheads in one month

20% of the output is sold against cash. Cash in hand and at bank is expected to be Rs. 60,000. It is to be assumed that production is carried on evenly throughout the year, wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

Q.4 **(a)** A company expects to have Rs. 25000 in bank on 1st May 2016 and requires you to prepare an estimate of cash position during the three months – May, June and July, 2016.
The following information is supplied :

Month	Sales (Rs)	Purchases (Rs)	Wages (Rs)	Office expenses (Rs)	Factory expenses (Rs)	Selling expenses (Rs)
March	50,000	30,000	6,000	4,000	5,000	3,000
April	56,000	32,000	6,500	4,000	5,500	3,000
May	60,000	35,000	7,000	4,000	6,000	3,500
June	80,000	40,000	9,000	4,000	7,500	4,500
July	90,000	40,000	9,500	4,000	8,000	4,500

Other information : **07**

1. 20% of sales are in cash, remaining amount is collected in the month following that of sales.
2. Suppliers supply goods at two month's credit.
3. Wages and all other expenses are paid in the month following the one in which they are incurred.
4. The company pays dividends to shareholders, and bonus to workers of Rs. 10,000 and Rs. 15,000 respectively in the month of May
5. Plant has been ordered and is expected to be received in June. It will cost Rs. 80,000 to be paid in June.
6. Income tax Rs. 25,000 is payable in July.

(b) Define EOQ. How is it computed? **07**

OR

Q.4 **(a)** A company is currently selling 1,00,000 units of its product at Rs. 50 each. At the current level of production, the cost per unit is Rs. 45, variable cost per unit being 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%. If the required rate of return (before tax) on the firm's investment is 30 %, is the new credit policy desirable? **07**

(b) Explain the various sources of working capital finance in brief. **07**

Q.5 **(a)** What are the essentials of Walter's dividend model? Illustrate with example. **07**

(b) Calculate the degree of operating leverage, financial leverage and combined leverage from the following data **07**

Sales 1,00,000 units @ Rs. 2 per units – Rs 2,00,000
Variable cost per unit @ Re. 0.70
Fixed costs – Rs 1,00,000
Interest charges – Rs. 3,668

OR

Q.5 **(a)** Explain the assumptions and implications of the NI approach and the NOI approach. Illustrate your answer. **07**

(b) The Agro-Chemicals Company belongs to a risk class for which the appropriate capitalization rate is 10%. It currently has 1,00,000 shares selling ar Rs. 100 each. The firm is contemplating the declaration of Rs 5 as dividend at the end of the current financial year, which has just begun. What will be the price of the share at the end of the year, if a dividend is not declared? What will be the price if it is declared? Answer this on the basis of MM Model and assume no taxes. **07**

****