

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MBA-SEMESTER-II-EXAMINATION- SUMMER-2024**

**Subject Code: 2529304****Date: 11/06/2024****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.
4. Use of simple calculators and non-programmable scientific calculators are permitted.

- Q.1** Explain the terms **14**
- a) Flootation Costs
  - b) Payback Period
  - c) Opportunity Cost
  - d) Zero-based Budgeting
  - e) Operating leverage
  - f) Safety Stock
  - g) Operating Cycle
- Q.2 (a)** A 12-payment annuity of Rs 10,000 will begin 8 years hence. What is the present value of this annuity if the discount rate is 14%? **07**
- Q.2 (b)** HPC Ltd. has an equity capital 30,00,000 (Rs. 100 each ). The company plans to raise Rs.20,00,000 for expansion and modernization. The following alternatives are under consideration: **07**
- I. Issue of Equity shares
  - II. Issue of 50% Equity share and 50% of 8% debt
  - III. Issue of 50% of 10% Preference shares and 50 % of Equity shares
- The company's existing Operating profits are of Rs. 8,00,000. The rate of corporate tax is 50%.  
Analyze EPS in each plan and suggest which plan should be preferable.
- OR**
- Q.2 (b)** A firm has a Sales of 10,000 units @ Rs. 100 each. Variable cost is Rs. 20 per unit. Loan taken of Rs. 10,00,000 @ the rate of 10%, Fixed cost other than Interest is Rs. 2,00,000 and Tax rate is 50%. Evaluate Operating, Leverage, Financial Leverage and Combined Leverage of the firm. **07**
- Q.3 (a)** The shares of a chemical company are selling at rupees 20 per share. The firm had paid a dividend of Rupees 2 per share last year. The estimated growth of the company is approximately 5% per year. **07**
- a) Determine the cost of equity capital of the company
  - b) Determine the estimated market price of the equity shares if the anticipated growth rate of the firm is (i) 8%, and (ii) 3%.
- Q.3 (b)** A company expects to earn an annual operating income of Rs 3,00,000. The company pays 10% interest on its debentures worth Rupees 9,00,000. The equity investors expect a return of 15% on their investments. Using Net Income Approach, Determine the Value of the firm and the overall cost of capital. What will happen to the value of firm and cost of capital if the debt increases by 3,00,000? **07**

**OR**

**Q.3 (a)** PQR Ltd. has issued 14% Preference Shares of face value of Rupees 100 each at a premium of 10% to be redeemed after 6 years at a premium of 3%. The Floatation Cost is expected to be Rupee 1 per share. Evaluate the cost of preference share. (Assume, there is no dividend payment tax). **07**

**Q.3 (b)** Explain Briefly the Net Operating Income Approach in relation to the capital structure and the value of the firm. **07**

**Q.4 (a)** The following are the particulars of Ramcharan & Company for the year 2022-23. Evaluate the working capital estimation for an annual sales of 12,00,000 units. **07**  
Cost Sheet:

Particulars	Cost per unit
Raw Material	20
Labour	30
Overheads	30
Total cost	80
Profit	20
Sales	100

Additional Information:

1. Raw Materials will be in stock for 2 months.
2. Processing period will be of 3 months.
3. Finished Goods remain in stock for 3 months.
4. Customers are given 2 months credit.
5. Suppliers are given credit of 2 months.
6. Time lag in payment of wages is 1 month.
7. Time lag in payment of overheads is 1 month.
8. Cash and bank balance is maintained at 5,00,000.

**Q-4 (b)** The Ganges Pump Company uses about 75,000 valves per year and the usage is fairly constant at 6,250 per month. The valve costs Rs. 1.50 per unit when bought in quantities and the carrying cost is estimated to be 20 per cent on average inventory investment on an annual basis. The cost to place an order and to process the delivery is Rs. 18. It takes 45 days to receive delivery from the date of an order and a safety stock of 3250 valves is desired. **07**

You are required to determine:

- a) The most economical order quantity and frequency of orders.
- b) The order point.
- c) The most economical order quantity if the valves cost Rs. 4.50 each instead of Rs. 1.50 each.

**OR**

**Q.4 (a)** Following is the budgeted data of Satyaprem Ltd. Create Cash Budget for the 3 months ended March 2024. **07**

Month	Sales	Purchases	Wages	Rent	Office Exp.
November 2023	4,00,000	2,00,000	40,000	6,000	2,000
December 2023	5,00,000	2,00,000	40,000	6,000	3,000
January 2024	6,00,000	2,00,000	50,000	7,000	4,000
February 2024	7,00,000	3,00,000	50,000	7,000	5,000
March 2024	8,00,000	4,00,000	50,000	7,000	5,000

Additional information:

1. Opening balance of Cash is Rs. 2,00,000.
2. Of the Sales 50% are on Cash basis. From the remaining 50% realized in the following month of sale and balance in second following month of sale.
3. Of the Purchases 20% are for cash and the remaining was paid in subsequent month.
4. Wages and Rent were paid on the 1 st day of every month

**Q.4 (b)** Explain the various sources of financing Working Capital. **07**

**Q.5** From the following information of Sukhsagar Ltd. you are required to analyse the Capital Budgeting project: **14**

Year	EBDIT
1	3,00,000
2	6,00,000
3	7,00,000
4	8,00,000
5	9,00,000

Initial Investment is Rs. 6,00,000. Scrap Value Rs. 1,00,000  
Estimated Life is 5 years, Cost of capital is 10% and Tax rate is 50%.

- (a) Calculate NPV
- (b) Calculate ARR based on Initial Investment

**OR**

- (a) Calculate Profitability Index
- (b) Calculate Payback period

\*\*\*\*\*