

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

Subject Code: 2529304

Date: 16/01/2025

Subject Name: Financial Management

Time: 02:30 PM TO 05:30 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) Operating Leverage
  - b) Financial risk
  - c) Pareto principle
  - d) Wealth maximization
  - e) Time value of money
  - f) Debentures
  - g) Capital budgeting
- Q.2 (a)** Comment on the emerging role of the finance manager in India. **07**
- Q.2 (b)** A project will cost ₹ 80,000. Its stream of earnings before depreciation, interest and taxes (EBDIT) during first year through five years is expected to be ₹ 20,000, ₹ 24,000, ₹ 28,000, ₹ 32,000 and ₹ 40,000. Assume a 50 per cent tax rate and depreciation on straight-line basis. Find the ARR from the given information. **07**
- OR**
- Q.2 (b)** You plan to go abroad for higher studies after working for the next five years and understand that an amount of ₹4,000,000 will be needed for this purpose at that time. You have decided to accumulate this amount by investing a fixed amount at end of each year in a safe scheme offering a rate of interest at 10 per cent. What amount should you invest every year to achieve the target amount? **07**
- Q.3 (a)** Shiv & Co., has 20 per cent irredeemable debentures of ₹ 200 each of ₹ 20,00,000. The tax rate is 40 per cent. **07**  
Determine debenture cost assuming it is issued at i) face value/par value ii) 10 per cent premium and iii) 10 per cent discount.
- Q.3 (b)** As finance manager of the XYZ Ltd., you expect that company will pay a ₹10 dividend next year, which is expected to grow at 6% yearly. Further, the required rate of return for the investor is 16%. So, what is the intrinsic value of the XYZ Ltd., stock? **07**
- OR**
- Q.3 (a)** The Capital Ltd., wishes to calculate its cost of capital using the Capital Asset Pricing Model [CAPM] approach. Company's analyst found that its risk free rate of return equals 12 per cent, beta equals 1.7 and the return on market portfolio equals 14.5 per cent. **07**
- Q.3 (b)** A firm's sales, variable costs and fixed cost amount to ₹37,50,000, ₹21,00,000 and ₹3,00,000 respectively. It has borrowed ₹ 22,50,000 at 9 per cent and its equity capital totals ₹27,50,000. What are the operating, financial and combined leverage of the firm? **07**
- Q.4 (a)** A trade-off between liquidity and profitability is essential for appropriate working capital management. Are you agreed with the statement? Support your argument. **07**
- Q-4 (b)** A firm has 7 different items in its inventory. The average number of each of these items held, along with their units costs, is listed below. The firm wishes to introduce an ABC inventory system. Suggest a breakdown of the items into A,B and C classifications. **07**

Item number	Average number of units in inventory	average cost per unit (₹)
Dinner Plates	2000	1200
Dinner spoon	1000	600
Dinner fork	3200	110
Dinner knife	200	100
Dessert Plate	600	300
Dessert spoon	400	400
Dessert fork	200	200

**OR**

**Q.4 (a)** Explain the Short-term Sources of Finance for working capital. **07**

**Q.4 (b)** A firm inventory planning inventories is one year. Its inventory requirement for this period is 3,200 units. Assume that its acquisition costs are ₹ 100 per order. The carrying costs are expected to be ₹ 2 per unit per year for an item. **07**  
Find the economic order quantity for the firm.

**Q.5** Case Study: **14**

Ahmedabad Co. Ltd. wishes to arrange overdraft facilities with its bankers from the period August to October 2023 when it will be manufacturing mostly for stock. Assume that you are financial manager of the company.

Month	Sales (₹)	Purchases(₹)	Wages(₹)	Mfg. Exp. (₹)	Office Exp. (₹)	Selling Exp. (₹)
June	1,80,000	1,24,800	12,000	3,000	2,000	2,000
July	1,92,000	1,44,000	14,000	4,000	1,000	4,000
August	1,08,000	2,43,000	11,000	3,000	1,500	2,000
September	1,74,000	2,46,000	12,000	4,500	2,000	5,000
October	1,26,000	2,68,000	15,000	5,000	2,500	4,000
November	1,40,000	2,80,000	17,000	5,500	3,000	4,500
December	1,60,000	3,00,000	18,000	6,000	3,000	5,000

Additional Information:

- (a) Cash on hand 1-08-2023: ₹ 25,000.
- (b) 50% of credit sales are realized in the month following the sale and the remaining 50% in the second month following. Creditors are paid in the month following the month of purchase.
- (c) Lag in payment of manufacturing expenses half month.
- (d) Lag in payment of other expenses one month.

**(a)** As a financial manager of the company explain what is budget and how it is useful for the company. **07**

**(b)** As you are financial manager of the Ahmedabad Co., Ltd prepare cash budget for August to October, 2023 and give insights to higher authority. **07**

**OR**

**(a)** Assume that, there is 50% increase in Sales, Purchase, wages, Manufacturing expenses, Office expenses and Selling expenses. And prepare cash budget with 50% increment for August to October, 2023. **07**

**(b)** Company's higher authority would like to know what is flexible budget and which advantages are associated with flexible budget. Explain it to your higher authority. **07**

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