

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) **07**

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 .

OR

- Q.3 (a)** **07**

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 ?

- (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**
