Nirma University

University Elective Course

Semester End Examination (IR), April - 2018
B.A./B. Com., LL.B.(Hons.), Semester - VI / VIII
B. Tech. in EE/IC/IT/CE, Semester - VI
Bachelor of Pharmacy, Semester – VI
UEIM007 Financial Management

Roll / Exam No. ____________ Supervisor's initial with date ____________

Time: 3 Hours Max. Marks : 100

Instructions:
1. Attempt all questions.
2. Figures to right indicate full marks.
3. Draw neat sketches wherever necessary.

Q-1. Parix Projects Pvt. Ltd. is considering two projects A & B. The cash flow of both the projects is as follows. [20]

Year	Project A	Project B
1	24000	40000
2	28000	32000
3	32000	20000
4	40000	18000

The Investment in Project A is of Rs. 70000 whereas Project B needs an investment of Rs. 60000. The cost of capital is 10%.
What will be Pay-back period (PBP), Discounted Pay-back period, Net present value (NPV) and Profitability index (PI) for Project A & B? Which Project should be selected? Why?

Q-2. The returns on 4 stocks, A, B, C and D over a period of 6 years have been as follows: [10]

Portfolio	1	2	3	4	5	6
A	10%	12%	-8%	15%	-2%	20%
B	8%	4%	15%	12%	10%	6%
C	7%	8%	12%	9%	6%	12%
D	9%	9%	11%	4%	8%	16%

Calculate the return on:
1. Portfolio of one stock at a time
2. Portfolios of two stocks at a time
3. Portfolios of three stocks at a time
4. A portfolio of all the four stocks

Assume equal proportional investment.

Q-3. Attempt **any two** of the following problems [18]

(a) ACME Limited's equity beta is 1.1. The risk-free rate is 8 percent and the market risk premium is 7 percent. ACME has a debt equity of 1:2. Its pre-tax cost of debt is 10 percent and its tax rate is 30 percent. What is the Weighted average cost of capital?

(b) Manish venture is considering relaxing its collection efforts. Presently its sales are Rs. 50 Million, its average collection period 25 days, its variable costs to sales ratio 0.75, its cost of capital 15 percent and its bad debt ratio 0.04. The relaxation in collection efforts is expected to push sales up by Rs. 6 Million, increase the average collection period to 40 days, and raise the bad debt ratio to 0.06. What will be the effect of relaxing the collection effort on the profit of the firm?

(c) The following data are available for Paras company:
Earnings per share: Rs.3
Internal rate of return: 15 percent
Cost of capital: 12 percent
If Walter's valuation formula holds, what will be the price per share when the dividend payout ratio is 50 percent? 75 percent? and 100 percent?

Q-4. Attempt **any two** of the following problems [16]

a) The relevant information for Xavier limited for the year ended 2012 is given below:

Particulars	**Beginning of 2012 (In Rs.)**	**End of 2012 (In Rs.)**
Inventory	9	12
Account receivable	12	16
Account payable	7	10

The amount of Sales and Cost of goods sold is Rs. 80 & Rs. 56, respectively. What is the length of the Operating cycle and cash cycle? Also comment on the Operating and cash cycle time. Assume 365 days to a year.

b) The following detail is available for Jenny and Jerry Pvt. Ltd.
Earnings per share - Rs. 5
Rate of return on investment – 20 per cent
Cost of capital – 16 per cent
Compute the market price of the company as per the Gordon

valuation model if the dividend payout ratio is 40 percent and 50 percent.

c) The following information is available for International paints company:

Depreciation: Rs. 3 Million

EBIT: Rs. 15 Million

Interest on Debt: Rs. 4 Million

Tax Rate: 50 percent

Loan repayment installment: Rs. 2.5 Million

From the above given details calculate Interest coverage ratio and Cashflow coverage ratio. Also comment on the Interest coverage ratio and Cashflow coverage ratio.

Q-5. Attempt **any two** Questions [16]

a) "Various short term as well as long term sources of finance are available for business" – Do you agree? Justify
b) What is Financial Management? Explain various Financial decisions.
c) "There are various factors that affect the capital structure decision of a firm." – Do you agree? Justify

Q-6. LTC brothers have requested you to prepare their cash budget for the period of January, 1991 through June 1991. Following information is available: [20]

A. The estimated sales for the period of January, 1991 through June 1991 are as follows: Rs. 1,50,000 per month from January through March and Rs. 2,00,000 per month from April through June.
B. The sales for the months of November and December of 1990 have been Rs.1, 20,000 each.
C. The division of sales between cash and credit sales is as follows: 30 percent cash and 70 percent credit
D. Credit collection pattern is: 40 and 60 percent after one and two months respectively.
E. Bad debt losses are nil.
F. Other anticipated receipts are: (i) Rs. 70,000 from the sale of a machine in April, (ii) Rs. 3,000 interest on securities in June.
G. The estimated purchases of materials are: Rs. 60, 000 per month from January to March and Rs. 80, 000 per month from April to June
H. The payments for Purchases are made a month after the purchase.
I. The purchases for the month of December, 1990 have been Rs.

60,000 for which payments will be made in January, 1991.

J. Miscellaneous cash purchase of Rs. 3,000 per month from January through June.
K. Wage payments are Rs. 25,000 per month, January through June.
L. Manufacturing expenses are Rs. 32,000 per month, January through June.
M. General administrative expenses are Rs. 15,000 per month, January through June.
N. Dividend payment of Rs. 30, 000 and tax payment of Rs. 35,000 are scheduled in June 1991.
O. A machine worth Rs. 80, 000 to be purchased on cash in March 1991.

The cash balance as on 1st January, 1991 is Rs. 28, 000. The minimum cash balance required by the firm is Rs. 30,000. Prepare a statement showing the surplus/deficit in relation to the Minimum cash balance required.