Nirma University

University Elective Course

Semester End Examination (IR/RPR), April - 2023

Bachelor of Pharmacy, Semester – VIII

B. Tech. in CL / CH / EE, Semester - V

B. Tech. in IC / EC / CSE, Semester - VI

Bachelor of Architecture (B.Arch.), Semester - III

Bachelor of Design (B.Des.) in Communication Design / Industrial Design, Semester - V

UEIM007 Financial Management

Roll / Exam No. ____________ Supervisor's initial with date DR 29/4/23

Time: 3 Hours Max. Marks: 100

Instructions:
1. Attempt all questions.
2. Internal options available in few questions.
3. Figures to right indicate full marks.
4. Use only black/blue coloured pen only.
5. Marks are reserved for neatness, presentation, and format.
6. Make necessary assumptions, wherever required.

Section – I

Q-1. Financial Management is nothing but managerial decision making in asset-mix, capital mix and profit "allocation". Comment. **(10)**

Q-2 Attempt any **one**:

a. "Incorporation of time value of money helps financial manager in taking better decisions". Explain. In light of the statement solve the given situation. Mr. X wishes to determine the present value of an annuity consisting of cash inflows of Rs. 1,000 per year for 5 years. The rate of interest he can earn from his investment is 10%. **(10)**

b. Jerome is considering investing in a security that has the following distribution of possible one year returns. **(10)**

State of Economy	Security X		Security Y	
	Return (%)	Probability	Return (%)	Probability
Good	4	0.5	0	0.5
Average	2	0.4	3	0.4
Poor	0	0.1	3	0.1

What is the expected return & standard deviation associated with Security X and Security Y? Which stock is more preferable?

Q-3 From the following information available for three firms, calculate the EBIT, the EPS, the Operating leverage and the Financial leverage. Also rank the firms on the basis of the EPS. **(15)**

Particulars	Firm P	Firm Q	Firm R
Sales in Units	20,000	25,000	30,000
Selling price per unit (Rs.)	15	20	25
Variable cost per unit (Rs.)	10	15	20
Fixed Costs (Rs.)	30,000	40,000	50,000
Interest (Rs.)	15,000	25,000	35,000
Tax%	40%	40%	40%
Number of equity shares	5,000	9,000	10,000

Q.4 X limited is considering purchasing of new plant worth Rs. 80,00,000. The expected net cash flows after taxes & before depreciation are as follows:

Year	Net Cash Flow (in Rs.)
1	14,00,000
2	14,00,000
3	14,00,000
4	14,00,000
5	14,00,000
6	16,00,000
7	20,00,000
8	30,00,000
9	20,00,000
10	8,00,000

The rate of cost of capital is 10%. You are required to calculate:

I. Payback period (05)

II. Net present value (06)

III. Profitability Index (04)

Section – II

Q-5 Lal & Co. has the forecast sales for January 2023 to July 2023 and actual sales for November and December 2022 as under. With the other particulars given, prepare a Cash Budget for the months, *i.e.*, from January to May 2023. **(20)**

(i) **Sales**

Month	Amount (Rs.)
November 2022	1,60,000
December 2022	1,40,000
January 2023	1,60,000
February 2023	2,00,000
March 2023	1,60,000
April 2023	2,00,000
May 2023	1,80,000
June 2023	2,40,000
July 2023	2,00,000

(ii) Sales 20% cash, and 80% credit, credit period two months.

(iii) Expenses 5% on sales, time lag of half month.

(iv) Commission paid on credit sales is 5%, payable in two months.

(v) Purchases are 60% of the sales. Payment are to be made two months after the date of purchase.

(vi) Rent Rs. 6,000 paid every month.

(vii) Other payments: Fixed assets purchases – February Rs. 36,000 and March Rs. 1,00,000; Taxes – April Rs. 40,000.

(viii) Opening cash balance as on 1st January, 2023 Rs. 50,000.

UEIM007

Q-6. The following table contains the financial information that is related to PQR Ltd. for the year ended on 31.3.2023. **(10)**

Particulars	Amount (Rs. in million)
Sales	3,500
Cost of goods sold	2,450

Balance Sheet Data

Particulars	1.4.2022 Amount (Rs. in million)	31.3.2023 Amount (Rs. in million)
Inventory	320	430
Accounts Receivable	230	250
Accounts Payable	120	130

Calculate the length of the operating cycle and cash cycle. Assume 360 days in a year

Q-7. Attempt any **one** question. **(10)**

Discuss the important dimensions of a firm's dividend policy.

OR

Under "credit policy variables," write a short note about "credit standards" and "collection effort."

Q-8. XYZ Ltd. has the following book value capital structure: **(10)**

Particulars	(Rs. Crore)
Equity capital (in shares of Rs. 10 each, fully paid up – at par)	15
12% Preference capital (in shares of Rs. 100 each, fully paid up – at par)	1
Retained earnings	20
11.5% Debentures (of Rs. 100 each)	10
11% Term loans	12.5

The next expected dividend in equity shares per share is Rs. 4.50; the dividend per share is expected to grow at the rate of 9%. The market price per share is Rs. 50. Preference stock, redeemable after ten tears, is currently selling at Rs. 85 per share. Debentures, redeemable after six years, are selling at Rs. 90 per debenture. The income tax rate for the company is 40%. Calculate the weighted average cost of capital using the market value proportions.

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