

PGDIFA Sem.-1 Examination

Paper-1

Financial Management

February-2025

Time : 2-30 Hours]

[Max. Marks : 70

NOTE: ATTEMPT **ANY FOUR** from Q-1 to Q-5, Q-6 is **COMPULSORY**.

- Q-1 On January 01, 2025, the management of Ahmedabad Industries Ltd. intends to assess the requirement of working capital for the year. Following are the available details. Calculate requirement of working capital based on the same. (15)

Product during the previous Year: 80000 units

Planned product for the year: 25 % increase from the previous year

Raw material cost: 60% of the sale value,

Direct Wages: 10% of the sale value

Overheads: 20% of the sale value

Cash on hand requirement: Rs. 50000

Sale price: Rs. 10 per unit

Raw Material remains in storage for 2 months before issuance for production, each unit is expected to be in process for 1 month, labor and overhead costs accrue evenly during the month

Finished goods remains in warehouse for approximately 2 months before dispatch to customers

Credit allowed from creditors is 2 months

Credit allowed to debtors is 2 months

Production and sales is regular and even during the year.

Wages and overheads paid on 1st of every month for the previous month.

OR

- Q.1 The rates of return on stock B and market portfolio for 10 periods are given below. (15)

Period	Return on Stock B (%)	Return on Market (%)
1	12	10
2	24	20
3	-10	-07
4	18	12
5	15	11
6	25	21
7	10	10
8	-12	-15
9	18	18
10	22	12

- Calculate the beta for the stock B

- Q-2 XYZ Limited's earnings and dividends have been growing at a rate of 15 percent per annum. This growth rate is expected to continue for 2 years. After that the growth rate will fall to 10 percent for the next 3 years. Thereafter, the growth rate is expected to be 8 percent forever. If the last dividend per share was Rs. 2.00 and the investors' required rate of return on equity is 15%, what is the intrinsic value per share? (15)

OR

- Q-2 A) Discuss the factors which needs to be considered while calculating requirement of working capital? (07)

- B) From the following information, calculate: (08)

a.) Net operating cycle period

b) Number of operating cycles per year

Raw material consumed during year	Rs. 10,00,000
Average stock of raw material	Rs. 50,000
Cost of production for the year	Rs. 7,00,000
Average work in progress inventory	Rs. 40,000
Cost of goods sold during the Year	Rs. 15,00,000
Average finished goods stock in ware house	Rs. 1,00,000
Average collection period from debtors	60 days
Average credit period from creditors	30 days
No. of days in year	360

(P.T.O)

- Q.3 A)** Discuss the major functions of corporate finance manager. **(07)**
B) Sales 200000 units at price of Rs. 10 each, Variable Cost -Rs. 5 per unit; Fixed Cost = 480000; Interest = 50000. Calculate the degree of operating leverage, financial leverage and combined leverage. **(08)**

OR

- Q-3** Explain different types of leverage and it's comparison with each other. **(15)**
- Q -4** ABC Products Limited is a leading manufacturer of cosmetics products. Cosmetics products are being very dynamic market; product life cycle is considered as 7 years post which it will require upgradation of product. **(15)**
 According to the market analysis, ABC Products Limited has option to launch two products; X and Y. However, considering the financial conditions company can launch any one product. Both the product requires funds inflow of Rs. 100000.00 at the beginning.
 The expected cash inflows are as follows:

Year	Product X	Product Y
0	(1,00,000)	(1,00,000)
1	32,000	9,000
2	27,000	14,000
3	22,000	20,000
4	20,000	26,000
5	15,000	28,000
6	12,000	32,000
7	10,000	35,000

Both the products have risk characteristics similar to the average risk of the firm and hence firm's cost of capital, viz. 10 percent, will apply to them.

You have been asked to prepare a report for the executive committee, covering the following:

- i. Calculate the NPV of Products X and Y.
- ii. Calculate Normal and discounted payback period of Products X and Y.

OR

- Q.4 A)** Discuss briefly the various sources of long-term and short term finance available to Indian Companies. **(07)**
B) Explain different forms of dividend, it's advantages and limitations. **(08)**
- Q-5 A)** Discuss the components of Indian Financial System? **(07)**
B) Discuss the techniques of risk analysis in capital budgeting. **(08)**

OR

- Q-5 A)** You plan to go abroad for higher studies after working for the next four years and understand that an amount of Rs. 1,000,000 will be needed for this purpose at that time. You have decided to accumulate this amount by investing a fixed amount at the end of each year in a safe scheme offering a rate of interest at 12 percent. What amount should you invest every year to achieve the target amount? **(07)**
B) Rs.1000 par value bond, bearing a coupon rate of 12 percent will mature after 6 years. What is the value of the bond, if the discount rate is 16 percent? **(08)**

Q-6 MCQ **(10)**

1. Operating leverage is calculated as:
 a.) Contribution / EBIT b) EBIT / PBT c) EBIT / Interest d) EBIT / Tax
2. Which of the following indicates business risk?
 a.) Operating Leverage c) Financial Leverage
 b.) Combined Leverage d) Total Leverage
3. If margin of safety is 0.25 and there is 8% increase in output, then EBIT will:
 a.) Decrease by 2% c) Increase by 32%
 b.) Decrease by 32% d) Increase by 2%

4. When sales are at breakeven point, degree of operating leverage will be;
 - a.) Zero
 - b.) Infinite
 - c.) One
 - d.) None of the above

 5. Which of the following is the assumption of Gordon's model?
 - a.) $K_e > g$
 - b.) Retention ration, once decided upon, is constant
 - c.) Firm is an all equity firm
 - d.) All of the above

 6. If shareholders prefer regular income, how does this affect the dividend policy?
 - a.) It will lead to payment of dividend
 - b.) It is the indicator to retain more earnings
 - c.) It has no impact on dividend decision
 - d.) Can't say

 7. A capital budgeting technique which does not require the computation of cost of capital for decision making purpose is:
 - a.) Net present value method
 - b.) Internal rate of return
 - c.) Modified internal rate of return
 - d.) Payback period method

 8. If the cut off rate of a project is greater than IRR:
 - a.) Accept the proposal
 - b.) Reject the proposal
 - c.) No decision shall be taken

 9. In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas?
 - a.) common stock.
 - b.) preferred stock.
 - c.) debt.
 - d.) none of the above.

 10. The long-run objective of financial management is to:
 - a.) maximize earnings per share.
 - b.) maximize the value of the firm's common stock.
 - c.) maximize return on investment.
 - d.) maximize market share
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