

Seat No. : \_\_\_\_\_

**ZP-104**

**May-2014**

**M.B.A., Sem.-II**

**Fundamentals of Financial Management**

**Time : 3 Hours]**

**[Max. Marks : 100**

- Instructions :** (1) Use of Present Value tables are allowed.  
(2) Show relevant working notes as a part of your answer.

1. Sandhya group of Industries is planning to introduce a new product with a projected life of 8 years. The project, to be set up in backward area, qualifies for a one time (as its starting) tax-free subsidy from the govt. of Gujarat of ₹ 10 lakhs. Initial equipment cost will be ₹ 70 lakhs and additional equipment cost of ₹ 5 lakhs will be needed at the end of second year. In addition to this ₹ 10 lakhs will be required for working capital in the beginning of the project. At the end of project original equipment will not have any salvage value but the additional equipment will be sold for ₹ 1 lakh. The sales volume forecasted as under.

**20**

Year	1	2	3 to 5	6 to 8
Units	8000	12,000	30,000	20,000

A sale price of ₹ 100 per unit is expected and variable cost will be 40% of sales revenue. Fixed cash operating costs will amount to ₹ 16,00,000 per year. The company is subject to 30% tax rate and considers 10% to be an appropriate after tax cost of capital for the project. The company follows the straight line method of depreciation. Should the project be accepted ?

2. (a) What do you mean by term “Working Capital” ? Explain trade off between profitability and liquidity while managing working capital. **10**  
(b) Mrs. Agrawal is planning to borrow a loan worth INR 20,00,000 for five years. She approached ICICI and it offered her 10% rate of interest. Calculate the annual installment and prepare loan amortization schedule. **10**

**OR**

- (a) “Leverage is double edge sword” Explain with an illustration.  
(b) Annual demand for an item is 6000 units. Ordering cost is ₹ 500 per order. Inventory carrying cost is 40% of purchase price per unit per year. The price breaks are as below :

Quantity	Price (₹)
Less than 2000	12
2000 to 3000	10
More than 3000	8

Find the optimum order size.

3. (a) The EBIT is ₹ 40 lakh for the firm Lina Ltd. and Uma Ltd. They are alike in all aspects except that firm L uses 10% debt aggregating ₹ 80 lakh. **10**  
Determine the income to be received by shareholders and debt holders of both the firms at a given tax rate of 30%.  
What is the implication of such an outcome on the valuation of the firm based on MM assumptions ?  
Determine the values of both the firms, assuming 13% equity capitalization rate for firm U.
- (b) Assume that the dividend per share will grow at the rate of 30 percent per year for the next 5 years. Thereafter, the growth rate is expected to fall and stabilize at 15 percent. Investors require a return of 20 percent from Vasa Group of Companies' equity shares. What is the intrinsic value of Vasa's equity share ? The current dividend on an equity share of Vasa is ₹ 10.00 on an earnings per share of ₹ 20.00. **10**

**OR**

- (a) Discuss the various factors affecting capital structures of any company.
- (b) Explain the relationship between risk and return as per CAPM.
4. (a) You are the CFO of XYZ Ltd. Your company is planning to design the dividend policy. You have been asked to explain the factors influencing the dividend policy for your company. **10**
- (b) What is Cash Budget ? Explain it with an illustration. **10**

**OR**

- (a) You have been recently graduated from B K School and appointed as CFO at Big Bazaar. You have been asked to frame the credit policy of Big Bazaar. Which are the major Credit Policy variables you will discuss while designing credit policy of Big Bazaar ?
- (b) Discuss the various Models for calculation of Cost of Equity.
5. The following annual figures relate to Leo and Co. Limited. **20**

	₹
Manufacturing expenses outstanding at the end of the year (Cash expenses are paid one month in arrear)	70,000
Materials consumed (suppliers extend two months credit)	8,00,000
Sales (at two months' credit)	30,00,000
Sales promotion expenses, paid quarterly in advance	1,00,000
Total administrative expenses, paid as incurred	2,20,000
Wages paid (monthly in arrear)	6,50,000

The company sells its products on gross profit of 25 percent counting depreciation as part of the cost of production. It keeps one month's stock each of raw materials and finished goods, and a cash balance of ₹ 1,00,000. Work out the working capital requirements of the company on cash cost basis. Ignore work-in-process.