

**GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR**

Course: Financial Management
Semester-V (Batch: 2014-19)

Mid Semester Test: August-2016

Date: 12th August, 2016

Duration: 2 hours

Max. Marks: 30

Instructions:

- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in-line.
- Do not write any thing on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.
- Use of scientific calculator and present value & future value tables are permitted.

- Q.1 A firm is evaluating a proposal with an initial investment of Rs.2,00,000. It is expected to generate cash inflows of Rs.70,000, Rs.60,000, Rs.50,000, Rs.60,000 and Rs.40,000 at the end of each year for next 5 years. Determine the Net Present Value and Payback Period in terms of discounted cash inflows. The capital of the firm is composed of in the following manner.

Marks
(05)

Class	Contribution	Expected Return	Class	Contribution	Expected Return
Equity Shares	40%	15%	Preference Shares	20%	10%
Bonds	10%	08%	Debentures	15%	12%
Loan from IDBI	05%	09%	Loan from ICICI	10%	8.5%

OR

Write Short notes on the following.

(05)

- (a) Value maximization goal of finance
- (b) Agency problem
- (c) Weighted Average Cost of Capital
- (d) Moral hazard
- (e) Arbitrage process

- Q.2 The following forecast is made about a proposal which is being evaluated by a firm.

(05)

Initial Investment	Rs.60,000
Cash Inflows (annual)	Rs.15,000
Life of the project	6 years
Return presently Expected by the Investors	12%

Determine the Internal Rate of Return IRR of the proposal. Analyze sensitivity (how much percentage increase/decrease will push the project into zero NPV) of different variables such as **Initial Investment**, **Annual Cash Inflows** and **Discount Rate** with respect to the NPV of the proposal.

- Q.3 Discuss the major financial decisions taken by the finance team of any organization. (05)
What are the key considerations while making investing decisions? How is Accounting Rate of Return calculated and interpreted?
- Q.4 (a) A debtor to settle his debt can make; (3+2=05)
(i) An immediate payment now of Rs.20,000 or,
(ii) An annuity payable at the end of each year for 5 years or,
(iii) An annuity in the beginning of the year for 7 years.
Determine the annuities in both conditions (i) & (ii) if the rate of interest is 12%.
- (b) A person is interested to take a home loan of Rs.30,00,000. He is offered an interest rate of 9.5% by a bank for 20 years. What will be the Equated Monthly Instalment (EMI) of this loan?

OR

A company is considering two equal size projects involving equal investment with an equal life span of one year each. (05)

A		B	
Cash Flows (Rs.)	Probability (%)	Cash Flows (Rs.)	Probability (%)
10,000	20	13,000	10
12,000	10	14,000	20
18,000	30	17,000	30
16,000	30	11,000	10
14,000	10	9,000	30

Determine Standard Deviation and Co-efficient of Variation of both the projects and analyze the **risk profile** of both the projects.

- Q.5 On an investment in an equity of Rs.200 which may be held till infinity, (05)
(a) Company 'A' promises dividend of Rs. 10 at the end of every year for 19 years and Rs.80 at the end of the 20th year.
(b) Company 'B' promises a dividend of Rs.8 infinitely.
(c) Company 'C' promises a dividend of Rs.4 which grows at a rate of 5% every year for 25 years and Rs.10 each year at the end of the next 5 years after the 25th year.
(d) Company 'D' promises a dividend of Rs.3 which grows at the rate of 4% infinitely.
Which proposal is the best given the discount rate of 12%?

- Q.6 A firm is considering various investment proposals for a cash reserve of Rs.1,00,000. It has the option of investing it at compound interest of 10% Govt. securities for two years or investing it in equity market which will give returns at the following rate. (05)

Year 1		Return → Probabilities →	Year 2		
Return	Probability		8%	10%	12%
10%	0.3		0.4	0.5	0.1
12%	0.5		0.5	0.2	0.3
14%	0.2		0.1	0.3	0.6

The cost of capital is 10%. Decide which option is better for the company applying multi-stage decision tree approach.
