Seat No.: ________ Enrolment No.

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER – 2 • EXAMINATION – SUMMER- 2019

Subject Code: 820003 **Date:13/05/2019**

Subject Name: Financial Management

Time: 10:30 AM To 01:30 PM **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 **(a)** Briefly explain various approaches of dividend policy of the firm. **07**

(b) The following information is available for Avanti Corporation. **07**

Earnings per share Rs. 4

Rate of Return on investments 18%

Rate of Return required by shareholders 15%

What will be the price per share as per the Walter Model if the payout ratio is 40%, 50% and 60%?

Q.2 **(a)** Briefly describe the different methods used for evaluating a capital investment decision? **07**

(b) The following cash flows are available. **07**

Year	Project A	Project B
1	7000	5000
2	8000	12000
3	9000	15000
4	10000	17000
5	12000	15000

Cash outflow is 35000 for Project A and 40000 for Project B. You are required evaluate both the projects with NPV if the discount rate is 12%.

OR

(b) A company has an average cost of capital of 18% The company has an investment opportunity in a project, the details of which are as under **07**

Year	Cash Flow (Rs.)
0	-5,00,000
1	50,000
2	1,50,000
3	3,00,000
4	2,00,000
5	1,00,000

Using the IRR method, you are required to help the company decide whether it should invest in the project or not?

Q.3 **(a)** Explain the assumptions and implications of the NI approach and the NOI approach. Illustrate your answer with hypothetical examples. **07**

(b) Explain the meaning of Leverage and its types with the following example: **07**

EBIT	Rs. 200
Contribution	Rs. 400
Interest	Rs. 100

Calculate & Interpret DOL, DFL and DCL.

OR

Q.3 **(a)** Give in brief the major sources of long term finance. **07**

(b) From the following capital structure, calculate weighted average cost of capital, using (i) book value weights (ii) market value weights. **07**

Particulars	Book value (Rs.)	Market Value (Rs.)
Equity shares, each of Rs.10	90,000	1,80,000
Retained earnings	30,000	-
Preference share capital	20,000	20,000
Debentures	60,000	60,000

The after tax cost of capital for different source is as follows:
Equity share capital: 14%, Retained earnings: 13%,
Preference share capital: 10% Debentures: 5%.

Q.4 **(a)** Discuss the various sources of working capital finance. **07**

(b) A cost sheet of a company provides the following data: Costs (per unit): **07**

Raw Materials:	52 Rs.	Direct Labor:	19.5 Rs.
Overheads:	39 Rs.	Total Cost (per unit):	110.5 Rs.
Profit:	19.5 Rs.	Selling Price:	130 Rs.

The following additional information available:
Average raw material in stock: 1 Month,
Average Material in process: 0.5 Month,
Average Finished goods: 1 Month,
Credit allowed by suppliers: 1 Month,
Credit allowed be debtors: 2 Months,
Time lag in payment of wages: 1.5 weeks,
Overheads: 1 Month.
25% of sales are on cash basis. Cash balance is expected to be Rs. 120000.
You are required to prepare a statement showing the working capital needed to finance a level of activity of 70000 units of output.
You may assume that production carried on evenly, throughout year and wages and overhead accrue similarly. (1 Month= 4 Weeks & 1 Year= 52 Weeks)

OR

Q.4 **(a)** Define Inventory management and explain the various tools and techniques used for inventory management. **07**

(b) You are working in finance department of Textile Industry. Your superior asked you to forecast the working capital requirements. What are the factors you will consider that affects on working capital requirement in textile industry? **07**

Q.5 **(a)** Why does money have time value? Explain "compounding" and "discounting" terms in time value of money. **07**

(b) "In financial system, the concept of wealth maximization is better in modern times while comparing it with profit maximization." – Explain with example. **07**

OR

Q.5 **(a)** 1. What is the present value of an income stream which provides Rs. 1000 at the end of year one, Rs. 2500 at the end of year two and Rs. 5000 during each of the years 3 through 10, if the discount rate is 12%? **07**

2. You plan to go abroad for higher studies after working for next five years and understand that an amount of Rs.2,000,000 will be needed for this purpose at that time. You have decided to accumulate this amount by investing a fixed amount at end of each year in a safe scheme offering a rate of interest at 10 percent. What amount should you invest every year to achieve target amount?

(b) Define Financial Management and the scope of financial management. What role should the financial manager play in a modern enterprise? **07**

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