

GUJARAT TECHNOLOGICAL UNIVERSITY**MBA SEMESTER – 2 • EXAMINATION – WINTER - 2018****Subject Code: Financial Management****Date: 26/12/2018****Subject Name: 820003****Time: 02:30 to 05:30 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) Explain the structure of financial system under financial management. **07**

- (b)** 1. Mr. Rohan has to receive Rs.500 at the beginning of each year for 4 years. **07**
Calculate the present value of annuity due assuming 10 per cent rate of interest.
2. ABC company issues Rs. 1000 par value bond at 12 per cent. The bond is redeemable after 10 years. Determine value of bond assuming required rate of return is 14 per cent.

Q.2 (a) What do you mean by working capital? Explain the policies of working capital management. **07**

- (b)** Determine the working capital required to finance a level of activity of 180000 units of output for a year. The cost structure is as under: **07**

	Cost per unit (Rs.)
Raw material	20
Direct labor	5
Overheads (including depreciation)	15
Total cost	40
Profit	10
Selling price	50

Additional information:

- Minimum desired cash balance Rs. 20000
- Raw materials are held in stock on an average for 2 months.
- Work-in-progress (assume 50 per cent completion stage) will approximate to half a month production
- Finished goods remain in warehouse, on an average for a month.
- Suppliers for materials extend a month's credit and debtors are provided 2 months credit. The cash sales are 25 per cent of total sales.
- There is a time lag in payment of wages for a month and half-a-month in the case of overheads.

OR

- (b)** Discuss various factors affecting working capital. **07**

Q.3 (a) Define cost of capital. Explain the significance of cost of capital in financial management. **07**

- (b)** A firm has two investment opportunities each costing Rs. 100000 each and each having an expected profit as shown below: **07**

Year		1	2	3	4
Project X (Rs.)	X	50000	40000	30000	10000
Project Y (Rs.)	Y	20000	40000	50000	60000

After giving due consideration to the risk criteria in each project the management has decided that project X should be evaluated at 10% cost of capital and project Y, a risky project with 15% cost of capital.

Compute the NPV and suggest the course of action for the management if:

1. Both the projects are independent
2. Both are mutually exclusive

OR

- Q.3 (a)** Om Sai enterprises issued 9 per cent irredeemable preference shares four years ago. The preference share that has a face value of Rs. 100 is currently selling at Rs. 93. What is the cost of preference share with 8 per cent dividend tax? **07**
- (b)** Compare and contrast NPV with IRR. **07**
- Q.4 (a)** Define leasing. How is it different from hire purchasing? **07**
- (b)** Calculate operating leverage. Interest Rs. 5000; sales Rs. 50000; variable costs Rs. 25000; fixed costs Rs. 15000. **07**

OR

- Q.4 (a)** Discuss various long term sources of finance **07**
- (b)** Discuss the EBIT-EPS analysis and explain their relationship. **07**
- Q.5 (a)** Discuss the factors which are relevant for determining the dividend payout ratio. **07**
- (b)** The following information is available for a company. **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%?

OR

- Q.5 (a)** Explain the meaning of leverage and its types with the following example: **07**
- EBIT Rs.200
- Contribution Rs.400
- Interest Rs.100
- Calculate and interpret DOL, SFL, and DCL.
- (b)** Describe the traditional view on the optimum capital structure. Compare and contrast this view with NOI and NI approach. **07**
