Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA (INTEGRATED)– SEMESTER – 05 • EXAMINATION – SUMMER - 2017

Subject Code:4150502 **Date: 03/05/2017**

Subject Name: FINANCIAL MANAGEMENT

Time:02.30 PM 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)** Why must financial statements be analysed? If you were a firm's creditors, which ratios would be especially important to you? Why? **07**

(b) What do the critics of the goal of maximizing shareholder wealth say? What is the rebuttal provided by the advocates of maximizing shareholder wealth? **07**

Q.2 **(a)** Given below is the Balance Sheet of a Limited Company as on 31stMarch, 1999 **07**

Balance Sheet

Liabilities	Rs.	Assets	Rs.
3,000 Equity shares of Rs. 100 each fully paid	3,00,000	Goodwill	1,00,000
		Land and buildings	3,00,000
1,500, 6% preference shares of Rs 100 each fully paid	1,50,000	Plant and machinery	3,50,000
		Stock on trade	2,00,000
		Sundry debtors	1,50,000
Reserve Fund	1,50,000	Cash at bank	35,000
Dividend equalization fund	50,000	Accrued income	15,000
5% Debentures	4,00,000		
Current Liabilities	1,00,000		
	11,50,000		**11,50,000**

Find out:

(a) Debt-equity ratio; (b) Proprietory ratio; (c) Solvency ratio; (d) Fixed assets to Net worth ratio; (e) Current assets to Net worth ratio.

(b) What is an annuity due? How can you calculate the present and future values of annuity due? Illustrate. **07**

OR

(b) Carry out the Du pont analysis for a company of your choice. **07**

Q.3 **(a)** Following is the data regarding two projects being considered. **07**

	Years	Project A Rs.	Project B Rs.
Initial Outlay		1,00,000	1,40,000
Salvage Value		-	20,000
Earnings before depreciation and taxes : Year	1	25,000	40,000
	2	25,000	40,000
	3	20,000	40,000
	4	20,000	40,000
	5	25,000	40,000
Expected Life		5 years	5 years

The required rate of return is 10%. Tax rate is 50% depreciation which is charged on straight line method. No capital gain taxes are assumed. Evaluate the projects with regard to their viability by NPV method. Which of the two projects should be accepted?

(b) Explain the rule of 69. How does it compare with the rule of 72 ? **07**

OR

Q.3 (a) ABL has provided the following information and requested you to calculate (a) WACC using book-value weights and (b) weighted marginal cost of capital (assuming that specific cost do not change) **07**

Source of Finance	Amount (Rs.)	Weights (%)	After Tax Cost (%)
Equity Capital	14,00,000	0.452	9
Preference capital	8,00,000	0.258	12
Debenture capital	9,00,000	0.290	16

ABL wishes to raise an additional capital of Rs. 12,00,000 for the expansion programme. The details of sources of funds are as follows: **07**

Equity Capital Rs. 6,00,000
Preference Capital Rs. 3,00,000
Debenture Capital Rs. 3,00,000

(b) What is factoring? Discuss in detail the mechanics, costs, and benefits of factoring.

Q.4 (a) From the following information of Across Company Ltd., estimate the working capital needed to finance a level of activity of 1,10,000 units of production after adding a 10 per cent safety contingency. **07**

	Cost per unit(Rs.)
Raw materials	78
Direct labour	29
Overheads (excluding depreciation)	58
Total cost	**165**
Profit	24
Selling price	**189**

Additional Information: **07**

Average raw materials in stock: One month. Average materials-in-process (50 per cent completion stage): Half a month. Average finished goods in stock: One month. Credit allowed by suppliers: One month. Credit allowed to customers: Two months. Time lag in payment of wages: One and half weeks. Overhead expenses: One month.

One fourth of the sales are on cash basis. Cash balance is expected to be Rs. 2,15,000. You may assume that production is carried on evenly throughout the year and wages and overhead expenses accrue similarly.

(b) What is the role of credit policy variables in the credit policy of a firm? Discuss.

OR

Q.4 (a) Critically evaluate the different approaches to the calculation of cost of equity capital. **07**

(b) Depreciation and retained earnings are the internal sources of finance". Discuss. **07**

Q.5 (a) Lucky Ltd. belongs to a risk class of which the appropriate rate is 15 per cent. The Lucky Ltd. has 10,000 shares selling at Rs. 200 each. The company is contemplating the declarating of Rs. 5 per share as dividend at the end of the current year. **07**

(a) Calculate the price per share: Assuming (i) Dividends are declared? and (ii)

Dividends are not declared?
(b) Find out the number of shares to be issued when dividends are declared, if the company has net income of Rs. 1,00,000 and it has an investment proposal costing Rs. 3,00,000.
You may assume MM model assumption.

(b) Define capital structure? Discuss the important factors that should be considered while determining capital structure. **07**

OR

Q.5 **(a)** Briefly discuss the legal and procedural aspects of dividends according to company's law. **07**

(b) "Bonus shares represent simply a division of corporate pie into a large number of pieces". Explain. **07**

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