Seat No.:	Enrolment No.

GUJARAT TECHNOLOGICAL UNIVERSITY MBA (AM) - SEMESTER- V• EXAMINATION - WINTER 2016

Subject Code: 4150502 Date: 25 /11/ 2016

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) The balance sheets and trading and profit and loss accounts for the year ended 30 Une, 2015 of S Ltd are given. You are required to:

Calculate three of the following ratios:

- (i) net profit for the year as a percentage of net assets employed at 30 June, 2015;
- (ii) net profit for the year as a percentage of sales;
- (iii) gross profit for the year as a percentage of sales;
- (iv) current assets to current liabilities at 30 June, 2015;
- (v) liquid ratio at 30 June, 2015; and
- (vi) stock turnover during the year.

S Ltd

Balance Sheet as on 30 June, 2015		(R s)
	S Ltd	
Fixed assets at cost	60,000	
Less: Provision for depreciation	20,000	
		40,000
Current assets		
Stock	57,000	
Debtors	22,000	
Cash	11,000	
	90,000	
Less: Current liabilities	30,000	
Net current assets		60,000
Net assets		100,000
Paid-up share capital		95,000
Revenue reserve		5,000
		100,000
	S Ltd	
Trading and Profit and Lo		(R s)
	110, 2013	(113)
S Ltd		

		Sales 100,000				
		Stock at July 1,				
		2015 39,000				
		Add: Purchases 114,000				
		153,000				
		Less: Stock at				
		June 30, 2015 57,000				
		Cost of goods sold 96,000				
		Gross profit 64,000				
		Less: General expenses 56,000				
		Net profit for the year 8,000				
		Add: Balance brought forward 3,000				
		11,000				
		Less: Dividend paid 6,000				
		Less. Dividend paid 6,000				
		Balance carried forward 5,000				
	(b)	What would be your role as a financial manager in a business unit? Explain.	07			
Q.2	(a)	Jai Chand is planning for his retirement. He is 45 years old today, and would like to have Rs 3,00,000 when he attains the age of 60. He intends to deposit a constant amount of money at 12 per cent at each year in the public provident fund in the State Bank of India to achieve his objective. How much money should Jai Chand invest at the end of each year for the next 15 years to obtain Rs 3,00,000 at the end of that period? [PVIFA _{15y,12%} =37.28]	07			
	(b)	Evaluate commercial paper as a source of short-term finance. OR	07			
	(b)	Explain an overview of process of credit rating in detail.	07			
Q.3	(a)	a) A company earns Rs 10 per share at an internal rate of 15 per cent. The firm has a policy of paying 40 per cent of earnings as dividends. If the required rate of return is 10 per cent, determine the price of the share under (i) Walter's mode (ii) Gordon's model.				
	(b)	What is a bonus share? What are the motives of issuing bonus shares (any 03 motives)	07			
Q.3	OR (a) A company is considering to raise Rs 200,000 to finance modernisation of its plant. The following financing alternative is feasible: The company may issue 20,000 shares at Rs 10 per share If the company's profits before interest are (a Rs 5,000, (b) Rs 12,000, (c) Rs 25,000, what are the respective earnings per share for the alternative? the corporate tax rate is 35 per cent.					
	(b)	Briefly explain the symptoms of undercapitalized and overcapitalized companies.	07			
Q.4	(a)	Briefly explain major forms of business organisation.	07			

160,000

Sales

- Q.4 (a) Explain the concepts of Gross and Net working capital with respect to their calculation and what do they indicate?
 - (b) Explain motives of holding cash.

07

Q.5 (a) Consider the following two mutually exclusive investments:

07

Cash Flows (Rs)					
Projects	C_{θ}	c_1	C_2	<i>C</i> 3	
A	- 10,000	+2,000	+ 4,000	+ 11,784	
B	-10,000	+10,000	+ 3,000	+2,830	

- (a) Calculate the NPV for each project assuming discount rate of 20 per cent;
- (b) Also, state which project would you recommend and why?
- (b) Define leasing. Explain major differences between Operating and Financial 07 lease.

OR

- Q.5 (a) A firm has 8,000,000 ordinary shares outstanding. The current market price is Rs 25 and the book value is Rs 18 per share. The firm's earnings per share is Rs 3.60 and dividend per share is Rs 1.44. How much is the growth rate assuming that the past performance will continue? Calculate the cost of equity capital.
 - (b) Discuss factors influencing choice of capital structure. 07
