

GUJARAT TECHNOLOGICAL UNIVERSITY
MAM - SEMESTER- 5 EXAMINATIONS – WINTER 2014

Subject Code: 4150502**Date: 06/01/2015****Subject Name: Financial Management****Time: 10:30 AM to 1:30 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) Define Financial Management. What role should the financial manager play in a modern enterprise? **07**
- (b) Explain the role and significance of Ratio Analysis to achieve the financial goals of the business. **07**

- Q.2** (a) The following is the ' company ltd as on 31st March current year **07**
- | | |
|--|----------------------|
| Equity share: 20,000 shares (of Rs 100 each) | Rs. 20,00,000 |
| 12% Preference shares (of Rs 100 each) | Rs. 8,00,000 |
| 10% Debentures | <u>Rs. 12,00,000</u> |
| | Rs. 40,00,000 |

The market price of the company's share is Rs 110 and it is expected that a dividend of Rs 10 per share would be declared at the end of the current year. The dividend growth rate is 6 per cent.

If the company is in the 35% tax bracket. Compute the weighted average cost of capital based on (i) book value weights & (ii) market value weights

- (b) Discuss in brief various discounted & non-discounted cash flow methods of capital budgeting. **07**

OR

- (b) Explain the concept of Working Capital and discuss in brief the major factors which generally influence the working capital requirements of firms. **07**

- Q.3** (a) Explain in detail different motives for holding cash in the business. **07**
- (b) (i) Mr. A borrows Rs.20,00,000 at an interest rate of 12%. The loan is to be repaid in 5 equal annual installments payable at the end of each of the next 5 years. Find out the amount installment. **04**
- (ii) XYZ Bank pays 9% interest annually. If one puts Rs.10,000 initially into a saving account, how much will it have grown in 8 years? **03**

OR

- Q.3** (a) What is factoring? Which are the types of factoring services available in India? **07**
- (b) A company is considering an investment proposal to install a new machine. This project will cost Rs.1,00,000 and will have 5 years life with no salvage value. Tax rate is 50 percent; the company follows straight line method of depreciation. The earnings before depreciation and tax as follows. **07**

Years	1	2	3	4	5
EBDT (Rs.)	20000	22000	28000	30000	50000

Evaluate the project using

1. Pay Back Period
2. NPV & Profitability Index at 10%
3. Accounting Rate of Return

- Q.4** (a) Explain Operating Leverage, Financial leverage and Combined leverage. **07**
 (b) Describe the traditional view on the optimum capital structure. Compare and contrast this view with the NOI approach and the NI approach **07**

OR

- Q.4** (a) What is an ordinary share? How does it differ from a preference share and debenture? Explain its most important features. **07**
 (b) Ken Ltd. and Zen Ltd. operate in the same line of business of manufacture of rubber components. However their cost structures and financing structures differ substantially. An analysis of their financial performance has revealed following data: **07**

Particulars	Ken Ltd (Rs. in Lacs)	Zen Ltd (Rs. in Lacs)
Sales	1500	2200
Variable Cost	600	1000
Fixed Cost	500	400
EBIT	400	800
Interest	150	160
PBT	250	640

Find out (a) Operating Leverage, (b) Financial Leverage, (c) Combined Leverage for both.

- Q.5** (a) Define & Distinguish between leasing and hire purchase. **07**
 (b) Which are the major credit rating agencies in India? Explain in brief. **07**

OR

- Q.5** (a) Explain the factors that generally influence the dividend policy of the firm. **07**
 (b) What is bonus share? State the advantages and disadvantages of issuing bonus shares. **07**
