Seat No.: ________ **Enrolment No.___________**

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA - SEMESTER–II • EXAMINATION – SUMMER 2015

Subject Code: 820003 **Date: 21/05/2015**
Subject Name: Financial Management (FM)

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.**

Question:1(a)	**1)** You are planning to go abroad after 10 years. You estimated total expenses Rs.20, 00,000. How much you should invest annually at the end of year in bank which gives annual return of 15%?	**03**
	2) Avani borrows from Bank for 5 years worth Rs. 5,00,000 to buy a new car .If Avani wants to pay an equal annual installment at the end of every year, and if the rate of interest is 10%, Calculate the amount of installment every year.	**04**
(b)	"The responsibility of finance manager is much more than mere procurement of funds". Discuss the objectives of finance management and role of finance manager now a day in the corporate.	**07**
Question:2(a)	What do you mean by working capital management? Discuss various factors that affecting working capital.	**07**
(b)	From the following information, you are required to estimate the net working capital requirement of Prisha Ltd. Wages and overheads accrue evenly throughout the year. Cost per unit (Rs.) Raw Materials 60 Direct Labour 10 Overheads 20 Total Cost 90 Additional Information : Selling Price Rs. 100 per unit Output 120000 units per annum Raw Materials in Stock average 1 month	**07**

	Work-in-process : (assume100% raw material, 50% of wages and overhead as a completion stage) with full average 1 month Finished Goods in Stock average 2 month Credit allowed to Debtors average 2 month Credit allowed by Creditors average 1 month Cash at Bank is expected to be Rs. 100000 Assume that production is sustained at an even pace during the 12 month. All sales are on credit basis .Wages are paid in the next month following the month of accrual.	
	OR	
(b)	The present credit terms of Vardan Limited are 2/15, net 45. Its sales are Rs.400 million, Its average collection period is 30 days and its variable costs to sales ratio is 80%. The cost of capital is 12%.The proportion of sales on which customers currently take discount is0.5.Vardan Limited is considering relaxing its discount terms to 3/15, net45. Such a relaxation is expected to increase sales by 100 million, reduce the average collection period to 27 days and increase the proportion of discount to o.6 of sales. The tax rate applicable to the company is 40%.What will be the effect of liberalizing the cash discount on residual income?	**07**
Question:3(a)	Discuss the various sources of working capital finance.	**07**
(b)	Navya limited has following capital structure: Equity shares (20000shares) 40,00,000 10%prefernce share 10,00,000 14%debenture 30,00,000 The shares of the company sell for Rs.20. It is expected that the company will pay next year Rs.2 per share as a dividend which will grow 7% for ever. Assume a tax rate 50%. You are required to calculate a weighted average capital based on the existing capital structure.	**07**
	OR	
Question:3(a)	Discuss in detail the advantages and disadvantages of the various discounted cash flow methods of capital budgeting.	**07**
(b)	Juli Ltd. desires to install a Furness plant. The project involves the cash investment of Rs. 50,00,000. The life of the project is 5 years without any salvage value. The tax rate is 40%. It has estimate the EBDT is as follows:	**07**

Year	1	2	3	4	5
EBDT	2800000	2600000	2400000	2100000	1800000

You are required to calculate the cash flow and Find out NPV at 10% cost of capital and give your comments.

	(You decide about Depreciation Policy based on available data)	
Question:4(a)	Why preference share capital considered as a hybrid source of financing? Evaluate it as a source of long term finance.	**07**
(b)	Explain the meaning of leverage and discuss various types of leverage. Also find out and interpret DOL,DFL and DCL from the information: EBIT: Rs.200000 Contribution: Rs.400000 Interest: Rs.100000	**07**
	OR	
Question:4(a)	Describe the traditional view on the optimum capital structure. Compare and contrast this view with the NOI approach and the NI approach.	**07**
(b)	Following is the information of Reshma Limited The cost of capital 10% rate of return on investment 15% equity shares of Rs.10 each 10,00,000 EPS is Rs. 5. Calculate the value of the share in the following situation using the Walter's model. (a) 100% retention ratio (b) 60% retention ratio	**07**
Question:5(a)	What is a bonus issue? What are its advantages and disadvantages?	**07**
(b)	The dividend paid by the company last year is Rs. 2 per share. The growth rate is 16%per year for next 4 year and it is expected that thereafter it falls to 12% p.a. for ever. The investor required rate of return is 15%. Find out the instric value of shares.	**07**
	OR	
Question:5(a)	State the different kinds of dividend policy and also explain the various factors that affect the dividend policy of company.	**07**
(b)	From the following information calculate overall cost of capital of a company and also determine which company has optimal capital structure.	**07**

Particular	Diya limited	Jiya limited
EBIT	1000000	1000000
Interest(0.10)	250000	------------
Equity capitalization rate	20%	20%
Corporate tax rate	35%	35%

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