Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA (AM) - SEMESTER– 5• EXAMINATION – WINTER 2018

Subject Code: 4150502 **Date: 29/11/2018**

Subject Name: Financial Management

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.**

Q.1 **(a)** From the following balance sheet of A Industries Ltd., as 31st March 2014. **07**

Liabilities	Rs.	Assets	Rs.
Equity Share Capital	10,000	Fixed assets (less depreciation Rs. 10,000)	26,000
7% Preference Share Capital	2,000	Current Assets:	
Reserves and Surplus	8,000	Cash	1,000
6% Mortgage Debentures	14,000	Investments (10%)	3,000
Current Liabilities:		Sundry debtors	4,000
Creditors	1,200	Stock	6,000
Bills payable	2,000		
Outstanding expenses	200		
Tax Provision	2,600		
	40,000		40,000

Other information:

1. Net sales Rs. 60,000
2. Cost of goods sold Rs. 51,600
3. Net income before tax Rs. 4,000
4. Net income after tax Rs. 2,000

Calculate:-

Current Ratio, Liquid Ratio, Proprietary ratio, Debt-Equity ratio, Interest coverage ratio, Stock Turnover Ratio and Debtors Turnover Ratio

(b) What is financial management all about? If you, as a manager, introduce financial management in your firm, which would be the key decision areas covered by it? Explain them. **07**

Q.2 **(a)** You borrow Rs10,000 at 14 percent compound annual interest for four years The loan is repayable in four equal annual installments payable at the end of each year. [$PVIFA_{14\%,4}$ = 2.914] **07**

i. What is the annual payment that will completely amortize the loan over four years?

ii. Of each equal payment, what is the amount of interest and the amount of loan principal?

(b) Explain any 7 factors affecting the requirement of working capital in steel industry **07**

OR

(b) What is credit rating? How does credit rating help companies? Explain any 5 advantages. **07**

Q.3 **(a)** Following are the details regarding three companies X Ltd., Y Ltd., & Z Ltd. **07**

DATA	X Ltd.	Y Ltd.	Z Ltd.
r	20%	15%	10%
Ke	15%	15%	15%
EPS	Rs 4	Rs 4	Rs 4

Calculate the value of an equity share using Gordon Model if dividend payout ratio is 50 per cent and 75 per cent.

(b) Explain the major sources of bonus shares for companies in India. **07**

OR

Q.3 **(a)** From the information below: **07**

Sales	Rs 430,000
Less: Variable costs	Rs 107,500
Less: Fixed Costs	Rs 150,000
EBIT	Rs 172,500
Less: Interest	Rs 11,000
EBT	Rs 161,500
Less: Tax	Rs 64,600
Net Income After Tax	Rs 96,900
EPS	Rs 9.69

Calculate Degree of Operating Leverage, Degree of Financial Leverage and Degree of Combined Leverage

(b) Explain the advantages and disadvantages of undercapitalization to companies. **07**

Q.4 **(a)** Draw and explain the Du Pont chart. **07**

(b) Differentiate the cash flow statement and the fund flow statement. **07**

OR

Q.4 **(a)** What are the guidelines for companies issuing commercial paper in India? **07**

(b) Factoring is very much helpful in trade financing. Explain the statement in light of benefits of factoring to business unit. **07**

Q.5 **(a)** From the following information, calculate the net present value of the two projects and suggest which of the two projects should be accepted. **07**

	Project X	Project Y
Initial Investment	Rs. 20,000	Rs. 30,000
Estimated Life	5 years	5 years
Scrap Value	Rs. 1,000	Rs. 2,000

The profits before depreciation and after taxation (cash flows) are as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
	Rs.	Rs.	Rs.	Rs.	Rs.
Project X	5,000	10,000	10,000	3,000	2,000
Project Y	20,000	10,000	5,000	3,000	2,000

Year	1	2	3	4	5	6
Factor @ 10%	0.909	0.826	0.751	0.683	0.621	0.564

(b) Differentiate Leasing and Hire purchase. Give 7 differences. **07**

OR

Q.5 **(a)** A company has on its books the following amounts and specific costs of each type of capital. **07**

Type of Capital	Book Value	Market Value	Specific Costs
	Rs.	Rs.	(%)
Debt	4,00,000	3,80,000	5
Preference	1,00,000	1,10,000	8
Equity	6,00,000	9,00,000	15
Retained Earnings	2,00,000	3,00,000	13
TOTAL	13,00,000	16,90,000	

Determine the weighted average cost of capital using:
(a) Book value weights, and
(b) Market value weights.

(b) State the benefits of listing ADR over listing of equity shares in the American financial markets. **07**

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