Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA (AM) - SEMESTER– V• EXAMINATION – SUMMER 2016

Subject Code: 4150502 **Date: 05-05-2016**

Subject Name: Financial Management

Time:02.30pm to 05.30pm **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 information calculate ROE using DuPont analysis and comment on performance of both the companies. **07**

Ratio	A. Ltd	B. Ltd.
Profit Margin	30%	15%
Total Asset Turnover	0.50	6.0
Financial Leverage	3.0	0.50

(b) What are the motives of companies for issuing bonus shares? Give any 7 motives. **07**

Q.2 **(a)** Determine the net present value for a project that costs Rs.104,000 and would yield after-tax cash flows of Rs.16,000 the first year, Rs.18,000 the second year, Rs.21,000 the third year, Rs.23,000 the fourth year, Rs.27,000 the fifth year, and Rs.33,000 the sixth year. Firm's cost of capital is 12.00%. **07**

(b) Explain the concept of commercial paper and evaluate it from company's point of view. **07**

OR

(b) Explain with formula the concepts of Operating, financial, and combined leverage. **07**

Q.3 **(a)** Explain the advantages and disadvantages of overcapitalization. **07**

(b) The following figures are collected from the annual report of XYZ Ltd.: **07**

Net Profit	Rs. 30 lakhs
Outstanding 12% preference shares	Rs. 100 lakhs
No. of equity shares	3 lakhs
Return on Investment	20%

What should be the approximate dividend pay-out ratio so as to keep the share price at Rs.42 by using Walter model?

OR

Q.3 **(a)** Define leasing and explain any 3 types of lease. **07**

(b) Mr. A proposes to invest Rs.1880 today and expects to accumulate Rs.2537 in three years. What is the underlying rate of return on the investment? What is the return if it takes five years to accumulate Rs.2537? **07**

Q.4	**(a)**	What is working capital? Briefly explain any 3 methods of estimating working capital.	**07**
	(b)	Explain the scope of financial management.	**07**

OR

Q.4	**(a)**	What is factoring? State 3 advantages and 3 dis advantages of factoring to business unit.	**07**
	(b)	What is fund flow statement? What are the interpretations that can be made from it? Explain any 3 of them.	**07**
Q.5	**(a)**	Calculate the cost of capital in the following cases: i) X Ltd. issues 12% Debentures of face value Rs. 100 each and realizes Rs. 95 per Debenture. The Debentures are redeemable after 10 years at a premium of 10%. ii) Y. Ltd. issues 14% preference shares of face value Rs. 100 each Rs. 92 per share. The shares are repayable after 12 years at par. Note: Both companies are paying income tax at 50%.	**07**
	(b)	Briefly explain various forms of business organizations along with their comparative evaluation from the point of view of taxation, capital need and distribution of profits.	**07**

OR

Q.5	**(a)**	XYZ Ltd. is planning an expansion programme. It requires Rs 20 lakhs of external financing for which it is considering two alternatives. The first alternative calls for issuing 15,000 equity shares of Rs 100 each and 5,000 10% Preference Shares of Rs 100 each; the second alternative requires 10,000 equity shares of Rs 100 each, 2,000 10% Preference Shares of Rs 100 each and Rs 8,00,000 Debentures carrying 9% interest. The company is in the tax bracket of 50%. You are required to calculate the indifference point for the plans.	**07**
	(b)	State any 4 benefits and 4 limitations of ratio analysis	**07**

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