

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MAM - SEMESTER– V EXAMINATION – WINTER 2015**

**Subject Code: 4150502****Date: 01/12/2015****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) “The importance of finance function as a management activity has increased in modern time” Explain. **07**
- (b) Briefly describe the different methods used for evaluating a capital investment decision? **07**

- Q.2** (a) The cash flows associated with an investment are given below **07**

Years	Cash flows
0	-1,00,000
1	25,000
2	40,000
3	50,000
4	40,000
5	30,000

If the cost of capital of the firm is 15% then find out the NPV and Profitability Index of the firm.

- (b) Explain the role and significance of Ratio Analysis to achieve the financial goals of the business. **07**

**OR**

- (b) What is factoring? Explain are the different types of factoring? **07**

- Q.3** (a) Define Working Capital. Discuss the three different approach of financing the working capital. **07**

- (b) The following is the capital structure of Blue Company Ltd. as on 31.12.2013. **07**

Equity share: 10,000 shares (of Rs 100 each)	Rs. 10,00,000
10% Preference shares (of Rs 100 each)	Rs. 4,00,000
12% Debentures	<u>Rs.6,00,000</u>
	Rs. 20,00,000

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 for the year 2013. The dividend growth rate is 6%:

- (i) If the company is in the 50% tax bracket, compute the weighted average cost of capital.
- (ii) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs. 10 lakhs bearing 14% rate of interest, what will be the company's revised weighted average cost of capital? This financing decision is expected to increase dividend from Rs. 10 to Rs. 12 per share. However, the market price of equity share is expected to decline from Rs. 110 to Rs. 105 per share.

**OR**

- Q.3 (a)** Why does money have time value? Explain “compounding” and “discounting” terms in time value of money. **07**
- (b)** (i) How much should be deposited at the beginning of each year for 10 years at the rate of 12% in order to provide a sum of Rs.50000 at the end of 10 years? **03**
- (ii) ) ABC Bank pays 9% interest annually. If one puts Rs.18,000 initially into a saving account, how much will it have grown in 12 years? **04**

- Q.4 (a)** Explain in brief the major sources of long term finance. **07**
- (b)** What is Credit Rating? Explain importance & limitations of Credit Rating? **07**

**OR**

- Q.4 (a)** Briefly explain the factors that influence the planning of the capital structure in practice. **07**
- (b)** Installed capacity 8,000 units, Actual production and sales 50 % of the capacity, Selling price, Rs 50 per unit and Variable cost, Rs 25 per unit, Fixed cost: 20,000, Capital structure is as follows: **07**

Financial plan	A	B
Equity	Rs. 1,00,000	Rs. 1,50,000
10% Debenture	Rs. 50,000	Rs. 1,50,000

Calculate (a) the operating leverage, (b) financial leverage and (c) combined leverage from the above data for financial plans, A and B.

- Q.5 (a)** Define Lease Finance? Briefly discuss types of lease. **07**
- (b)** A debenture is a long term promissory note for raising loan capital’. Discuss giving features of debenture and its advantages and disadvantages. **07**

**OR**

- Q.5 (a)** What is a stable dividend policy? Give the merits and demerits of stability of dividend. **07**
- (b)** Explain any two in detail: **07**
- (i) ADR & GDR
- (ii) Leverage
- (iii) Hire Purchase
- (iv) Bonus Shares

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