

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER II – EXAMINATION – WINTER – 2023

Subject Code: 2529304**Date: 17/01/2024****Subject Name: Financial Management****Time: 02:30 pm to 05:30 pm****Total Marks: 70****Instructions:**

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.
4. Use of simple calculators and non-programmable scientific calculators are permitted.

- Q.1** Explain the terms **14**
- a) Working Capital
 - b) Preference shares
 - c) Financial leverage
 - d) Debt
 - e) Capital budgeting
 - f) Inventory management
 - g) Cost of equity

- Q.2 (a)** Define financial management and elaborate its goals. **07**

- Q.2 (b)** Suppose you deposit Rs.20,000 today in a bank which pays 10 percent interest compounded annually. How much will the deposit grow to after 8 years? **07**

OR

- Q.2 (b)** At present you are doing business. You want to buy a house after 5 years when it is expected to cost ₹ 1 million. How much should you save annually if your savings earn a compound return of 12 per cent? **07**

- Q.3 (a)** Chief Financial Officer of the Gold tree Co., expected ₹600 earnings per share for the next year. Further, its current market price is Rs.100. Find the cost of equity as per earning-price approach. **07**

- Q.3 (b)** The Silver Ltd., wishes to calculate its cost of capital using the Capital Asset Pricing Model approach. Company's analyst found that its risk free rate of return equals 6 per cent, beta equals 0.85 and the return on market portfolio equals 7.25 per cent. As a financial manager of the company convey your calculation to your immediate superior. **07**

OR

- Q.3 (a)** Company X and Company Y are in the same risk class, and are identical in every respect except that company X uses debt, while company Y does not. The leverage firm has ₹ 9,00,000 debentures, carrying 10 per cent rate of interest. Both the firms earn 20 per cent operating profit on their total assets of ₹15 lakhs. Assume perfect capital markets, rational investors and so on; a tax rate of 35 per cent and capitalization rate of 15 per cent for an all equity company. **07**

Compute the value of firms X and Y using the Net Income Approach.

- Q.3 (b)** From above information Compute the value of each firm using Net Operating Income Approach. **07**

Q.4 (a) Rama & Co., has 15 per cent irredeemable debentures of Rs.100 each of Rs. 10,00,000. The tax rate is 35 per cent. Determine debenture cost assuming it is issued at i) face value/par value ii) 10 per cent premium and iii) 10 per cent discount. Calculate the cost with tax. **07**

Q-4 (b) Rama & Co., has 15 per cent irredeemable debentures of Rs.100 each of Rs. 10,00,000. The tax rate is 35 per cent. Determine debenture cost assuming it is issued at i) face value/par value ii) 10 per cent premium and iii) 10 per cent discount. Calculate the cost without tax. **07**

OR

Q.4 (a) XYZ company supplied the following information to you and requested to compute cost of capital based on book values and market values. **07**

Source of finance	Book value (₹)	Market (₹)	After tax cost (%)
Equity capital	10,00,000	15,00,000	12
Long term debt	8,00,000	7,50,000	7
Short term debt	2,00,000	2,00,000	4
Total	20,00,000	24,50,000	

Q.4 (b) The Platinum Company has been buying a given in lots of 2500 units which is three month's supply, the cost per unit is ₹ 15, order cost is ₹ 10 per order and carrying cost is ₹5. The Golden company need your advice as manager. You are required to calculate the EOQ and give your suggestion. **07**

Q.5 Case Study: **14**
 Max manufacturing company has following present details are as under
 Sales (@₹100 per unit) ₹ 24,00,000
 Variable cost 50%
 Fixed cost ₹ 10,00,000.
 It has borrowed ₹ 10,00,000 @10% p.a. and its equity share capital is ₹ 10,00,000(₹100 each).
 Due to promotion strategies company is expecting that sales will increase by ₹6,00,000 in near future. As a financial manager of the company help company to find

- (a) Operating leverage at present and future level.
- (b) Financial leverage at present and future level.

OR

- (a) Find combine leverage at present level and future level.
- (b) As a financial manager, analyzed the company on its financial condition via leverages analysis.
