Seat No.:	Enrolment No
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GUJARAT TECHNOLOGICAL UNIVERSITY MBA - SEMESTER-II • EXAMINATION – SUMMER 2018

Subject Code: 820003 Date:25/05/2018

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.

\mathbf{Q} .	l (a) Differen	tiate between	Waalth Mari				
	`_	Wearth Waximization and Profit Maximization.					07	
Q.1	(b	Under what circumstances do the net present value and internal rate of return methods differ? Which method would you prefer?				07		
Q.2	(a	What is	an andina 1					
·	(a	preference	ee share and a	are? What are debenture?	its features?	How does it diff	er from a	07
	(b)	Comment	-1					
	(0)	vear for t	the present v	alue for a bon	d that promis	ses to pay intere	st of ₹ 150 a	07
		year for t	imity years an	a 🐧 1000 at m	aturity The	first interest no	yment is paid	
	-	one year	from now. Us	e a rate of disc	count of ₹8 p	er cent.	_	
					OR			
	(b)						07	
		TE IS CUITE	muv semng at	1 10 and it i	c actimated th	c		07
			mat is the Dr	eseni vaine ot	The chara if	nat after a year t the required rate	of return is	
		10 percen	t? Should the	share be boug	ht?		or retain is	
2.3	(a)	Explain the assumptions and implications of the NI approach and the NOI						
approach. Illustrate your answer with hypothetical example					NI approach a	nd the NOI	07	
	(b)	Compute the rate of return of the following projects: Which we is						
		The state of the s				07		
		Projects	Cash flow	Cash flow	Cash flow	Cash flow ₹-	1	
		V	₹-C0	₹-C1	₹-C2	C3		
- 1		Q	-20,000 -20,000	8,326	8,326	8,326		
\dashv			-20,000	0	0	24,978		
.3	(a)	Explain the nature of the factors which influence the dividend policy of a firm.						
	(b)	A Compa	ny has ₹ 1	00 000 charas	influence th	e dividend polic	y of a firm.	07
		outstanding	g at 9.75 per	, 00,000 shares of 100 at par of preference shares er cent dividend rate. The current market price of the			07	
		preference	share is ₹80.	What is its co	a rate. The c	urrent market p	orice of the	
.4	(a)	What is the role of credit terms and credit standards in the credit policy of a firm?						
.	(11)	firm?	e role of cred	it terms and c	redit standar	ds in the credit	policy of a	07
	(b)							
								07
		- Production will be required in the first vace's monthly -					- 1	
		Tou are giv	en the follow	ing estimates	and are incom	ucted to add 10 p	per cent to	
		your compu	ited figure to a	llow for conti	ngencies:		T. Join to	- 1

Average amount backed up for stocks: Stocks of finished product Stocks of stores, materials, etc Average credit given: Inland sales- 6 weeks' credit Export sales – One and Half weeks' credit Lag in payment of wages and other outgoings: Wages- One and Half weeks' Stocks, Materials, etc- 6 months Clerical staff- Half month Managers- Half Month Mise expenses- One and Half months Payment in advance: Sundry expenses (paid quarterly in advance) Undrawn profits on the average amount of working capital required. OR Q.4 (a) Illustrate with example the modus operandi of preparing a cash budget. OR (b) A firm's estimated demand for a material during the next year is 2,500 units. Acquisition costs are \$\frac{3}{4}00\$ per order and carrying cost is \$\frac{3}{5}\$ oper unit. The safety stock is set at 25 per cent of the EQQ. The daily usage is 10 units and lead time is 10 days. Determine (a) EQQ (b) The safety stock and ((a) The reorder point. Q.5 (a) X Co. has a net operating income of \$\frac{7}{2}\$, 00,000 on an investment of \$\frac{7}{4}\$ (iii) file the firm has (i) no debt, (ii) \$\frac{7}{3}\$,00,000 debt, (iii) \$\frac{7}{6}\$,00,000 debt. (b) Using the NOI approach and an equity-capitalization rate of 12 per cent, compute the total value of the firm, value of shares and the cost of equity if the firm has (i) no debt, (ii) \$\frac{7}{3}\$,00,000 debt, (iii) \$\frac{7}{6}\$,00,000 debt. (b) Explain the rationale of the Tandon Committee's recommendations. OR								
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