

PARUL UNIVERSITY
FACULTY OF COMMERCE

B.Com (Hons) Summer 2022 – 23 Examination

Semester: 04

Date: 17-03-2023

Subject Code: 16100253

Time: 10:30am to 01:00pm

Subject Name: Financial Management I

Total Marks: 60

Instructions:

1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

Q.1 Do as directed.**A) Multiple choice/True or False type questions. (Each of one mark) (06)**

1. Present value tables for annuity cannot be straight away applied to varied stream of cash flows.

a) True	b) False
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2. Value of a bond just depends on the interest payment it offers.

a) True	b) False
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3. _____ refers to the fund, which an organisation must possess to finance its day-to-day operations.

a) Fixed Capital	b) Working Capital
c) Retained Earnings	d) None of the above
4. _____ refers to the mix of a firm's capitalization and includes long term sources of funds.

a) Leverage	b) Capital structure
c) Debt mix	d) None of the above
5. A series of equal payments is called an annuity.

a) True	b) False
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6. While capital budgeting measures are easy to calculate, their results are only as good as the estimates of the future cash inflows provided as input.

a) True	b) False
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B) Definitions / One-liners / Terms. (Each of one mark) (06)

1. What is business finance?
2. What you understand by time value of money?
3. Explain Meaning of capital structure.
4. Discuss meaning of investment decision
5. Describe meaning of dividend decision
6. What is working capital management?

Q.2 Numerical / Short Note Questions. (Each of 04 mark) (12)

1. If you deposited Rs. 55,650 in a bank, which was paying a 15 per cent rate of interest on a ten-year time deposit, how much would the deposit grow at the end of ten years? ($CFV_{10,0.15} = 4.046$)
2. Suppose you have borrowed a 3-year loan of `10,000 at 9 per cent from your employer to buy a motorcycle. If your employer requires three equal end-of-year repayments, then the annual installment will be? ($PVAF_{3,0.09} = 2.531$)
3. Explain major Sources of Working Capital.

Q.3 Answer the following. (Any Three) (18)

1. **A)** Suppose an investor wants to find out the present value of 50,000 to be received after 15 years. The interest rate is 9 per cent. What would be the present value? ($PVF_{15,0.09} = 0.275$)
B) Suppose a firm deposit Rs. 5,000 at the end of each year for four years at 6 per cent rate of interest. How much would this annuity accumulate at the end of the fourth year? ($CVFA_{4,0.06} = 4.3746$)
2. Discuss essentials of a Sound or Optimal Capital Structure.
3. Discuss major determinants of Working Capital in detail.
4. Explain dividend relevance model provided by Gordon in detail.

Q.4 Answer the following. (Any two)

(18)

1. Who is a financial manager? What role does a financial manager play?
2. EBIT of Ashwin Ltd. is Rs. 200000 p.a. on an investment of Rs.600000. The company can finance this amount by issuing equity share capital of Rs. 100 each, 10 % preference shares and 15 % debentures. Suppose, Company analyzes the following four options to raise the required funds of Rs.600000:

Option I: By issuing equity share capital at par.

Option II: 50% funds by equity share and 50% funds by Preference share capital.

Option III: 50 % funds by equity share capital, 25 % by issue of 10 % preference shares and 25 % by issue of 15% debentures.

Option IV: 25 % funds by equity share capital, 25% by issue of 10 % preference shares and 50 % by issue of 15 % debentures.

Find and analyze EPS under different options assuming tax rate of 50%.

3. Explain major factors that influence capital structure in detail.