

**PARUL UNIVERSITY**  
**FACULTY OF LIBERAL ARTS**  
**B. Arts Winter 2023 - 24 Examination**

**Semester: 01**  
**Subject Code: 06010101FM01**  
**Subject Name: Fundamentals of Financial Management**

**Date: 10-01-2024**  
**Time: 10:30 am to 1:00 pm**  
**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.

<b>Q.1 Do as Directed.</b>		<b>CO</b>	<b>PO</b>	<b>Bloom's Taxonomy</b>
<b>A). Multiple choice type questions/Fill in the blanks. (Each of 1 mark)</b>	<b>(05)</b>			
1. The focal point of financial management in a firm is		<b>1</b>	<b>2</b>	<b>1</b>
a) The number and types of products or services provided by the firm.	c) The creation of value for shareholders.			
b) The minimization of the amount of taxes paid by the firm.	d) The dollars profits earned by the firm.			
2 Capital Structure is an optimal mix of which one of the following options:		<b>1</b>	<b>1</b>	<b>1</b>
a) Sales and profits	c) Current assets and fixed assets			
b) Debt and equity	d) None of the above			
3 Capital budgeting is related to		<b>1</b>	<b>2</b>	<b>2</b>
a) Long –term assets	c) Short-term assets			
b) Medium-term assets	d) None of the above			
4 Working capital management is managing		<b>1</b>	<b>2</b>	<b>2</b>
a) Long- term assets and liabilities	c) Only short-term assets			
b) Short-term assets and liabilities	d) None of these.			
5 In which theory dividend decision materially affects the shareholders wealth and also the valuation of the firm		<b>1</b>	<b>1</b>	<b>4</b>
a) Theory of irrelevance	c) Both a and b			
b) Theory of relevance	d) None of these			
<b>B). Define the following. (Each of 1 mark)</b>	<b>(05)</b>			
1. Dividend		<b>1</b>	<b>1</b>	<b>1</b>
2. Equity Shares		<b>1</b>	<b>2</b>	<b>1</b>
3. Net Present Value		<b>1</b>	<b>2</b>	<b>1</b>
4. Financial Management		<b>1</b>	<b>1</b>	<b>1</b>
5. Working Capital		<b>1</b>	<b>2</b>	<b>1</b>
<b>C). Direct questions. (Each of 1 mark)</b>	<b>(05)</b>			
1. What is Time Value of Money?		<b>1</b>	<b>2</b>	<b>1</b>
2. What is Discounted Cashflows?		<b>1</b>	<b>2</b>	<b>1</b>
3. Difference between owned capital and borrowed capital.		<b>1</b>	<b>1</b>	<b>4</b>
4. Explain Risk-Return Trade-Off.		<b>1</b>	<b>1</b>	<b>2</b>
5. What is Annuity?		<b>1</b>	<b>1</b>	<b>1</b>
<b>Q.2 Answer the following questions.</b>				
<b>A).</b> What is Capital Budgeting? Explain various Capital Budgeting Techniques in detail.	<b>(07)</b>	<b>2</b>	<b>2</b>	<b>1</b>

<b>B).</b>	Wealth Maximization is considered to be the superior objective of Financial Management as compared to Profit Maximization. What are your opinions on this statement?	<b>(08)</b>	<b>2</b>	<b>2</b>	<b>5</b>																														
<b>Q.3</b>	Answer the following questions.																																		
<b>A).</b>	The following information is available in respect of ABC Ltd: Earnings Per Share (EPS) = Rs. 10 (Constant) Cost of Capital (Ke) = 0.10 (Constant) Find out the market price of the share as per Walter Moder under different rate of returns where: R = 8%, R = 10% and R = 15% for different payout ratios of 0%, 40%, 80%, 100%.	<b>(07)</b>	<b>3</b>	<b>3</b>	<b>5</b>																														
<b>B).</b>	Determine the present value of the cash inflows of Rs. 3000 at the end of each year for next 4 years and Rs. 7000 and Rs. 1000 respectively, at the end of years 5 and 6. The appropriate discount rate is 14%.	<b>(08)</b>	<b>2</b>	<b>3</b>	<b>5</b>																														
<b>Q.4</b>	Attempt any two questions. <b>(Each of 7.5 mark)</b>	<b>(15)</b>																																	
	1. Consider the following projects: <table border="1" style="margin-left: 40px; margin-right: 40px;"> <thead> <tr> <th colspan="6">Cash Flows (Rs)</th> </tr> <tr> <th>Projects</th> <th>Year 0</th> <th>Year 1</th> <th>Year2</th> <th>Year3</th> <th>Year 4</th> </tr> </thead> <tbody> <tr> <td>A</td> <td>-1000</td> <td>+600</td> <td>+200</td> <td>+200</td> <td>+1000</td> </tr> <tr> <td>B</td> <td>-1000</td> <td>+200</td> <td>+200</td> <td>+600</td> <td>+1000</td> </tr> <tr> <td>C</td> <td>-1000</td> <td>+100</td> <td>+100</td> <td>+100</td> <td>+1600</td> </tr> </tbody> </table> Calculate the Net Present Value and Pay Back Period of all three projects and also state which project is more profitable to invest consider the discounting rate to be 10%.	Cash Flows (Rs)						Projects	Year 0	Year 1	Year2	Year3	Year 4	A	-1000	+600	+200	+200	+1000	B	-1000	+200	+200	+600	+1000	C	-1000	+100	+100	+100	+1600		<b>2</b>	<b>3</b>	<b>5</b>
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	2. What is Working Capital? What are the components of Working Capital?		<b>1</b>	<b>2</b>	<b>1</b>																														
	3. Explain the Walter and Gordon Model of Dividend theories of a firm.		<b>2</b>	<b>2</b>	<b>2</b>																														
	4. You make a fixed deposit of Rs. 1,00,000 in Canara Bank for Five years. The annual interest rate is 12%. How much total amount will you receive after five years if the interest is compounded: A. Annually B. Semi-Annually C. Quarterly		<b>2</b>	<b>3</b>	<b>5</b>																														