

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
MBA. Winter 2019 - 20 Examination

Semester: 2
Subject Code: 06200153
Subject Name: Financial Management

Date: 10/12/2019
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.

Q. 1 Do as directed.**(A) Multiple Choice Questions****05**

1. If the interest rate is 12% , what is the doubling period as per rule 72?

- | | |
|---------------|---------------|
| (a) 7 years | (b) 6 years |
| (c) 6.3 years | (d) 7.3 years |

2. Valuation of bonds requires familiarity with which of the following term(s):

- | | |
|------------------------------|---------------------|
| (a) Par Value | (b) Maturity Period |
| (c) Coupon rate and Interest | (d) All of these |

3. The difference between current assets and current liabilities is called:

- | | |
|---------------------|---------------------------|
| (a) Working Capital | (b) Gross working Capital |
| (c) Operating Cycle | (d) Net Working capital |

4. Which of the following is not an inventory?

- | | |
|-----------------------|----------------------|
| (a) Machines | (b) Raw material |
| (c) Finished products | (d) Consumable tools |

5. The change in profit due to the change in sales is referred to as

- | | |
|------------------------|---------------------------|
| (a) Financial leverage | (b) Operating leverage |
| (c) Profit planning | (d) Dividend-payout ratio |

(B) Define the following (each question is of 1 mark)**05**

1. Dividend policy
2. Cash Management
3. Agency Problem
4. Flootation Cost
5. Safety Stock

(C) Direct Questions (each question is of 1 mark)**05**

1. Why does money have time value?
2. What is P/E ratio?
3. What is EOQ?
4. What are the basic functions of financial management?
5. Enlist the sources of long term finance.

Q. 2 Answer the following questions

(A) Which one is superior objective for a company - wealth maximization or profit maximization? **07**

(B) What are the basic functions of financial management? Explain in brief. **08**

Q. 3 Answer the following questions

(A) Mr. Sujni borrows from Bank for 5 years worth Rs. 10, 00,000 to buy a new car named Honda city. If Mr. Sujni wants to pay an equal annual installment at the end of every year, and if the rate of interest is 10%, calculate the amount of installment every year and prepare loan amortization schedule. **07**

- (B) Suppose the market price of a bond is Rs. 883.40 (FACE value being Rs. 1000). The will pay interest at 6% per annum for 5 years, after which it will be redeemed at par. What is the bond's rate of return? **08**

Q. 4 Attempt any two questions. (Each of 7.5 mark)

15

1. "Working capital is a measure of both a company's efficiency and its short-term financial health." Explain with example. Also discuss issues in working capital management.
2. "Short term Financial Management also known as Working capital management deals with current assets and current liabilities. Today with rapid changes in business scenario, working capital management has acquired greater importance." In this context, explain the factors influencing Working capital requirements.

3. Xiaomi Tubes Ltd is the manufacturer of picture tubes for TV. The following are the details of the operation during the current year:

1	Average monthly market demand (tubes)	2000
2	Ordering cost (per order)	Rs. 100
3	Inventory carrying cost (% pa)	20
4	Cost of tubes (per tube)	Rs. 500
5	Normal usage (tubes per week)	100
6	Minimum usage (tubes per week)	50
7	Maximum usage (tubes per week)	200
8	Lead time to supply (weeks)	6-8

Compute from the above:

1. Economic Order Quantity
 2. Maximum Level of stock
 3. Minimum Level of stock
 4. Reorder Level
4. A Small Scale Industrial Project by the State Government yields the following cash flow stream. If the applicable discount rate is 14%, find the present value of this cash flow?

Year	0	1	2	3	4
Cash Flow (Rs.)	50,000	60,000	80,000	90,000	80,000