Seat No:_____________ Enrollment No:_____________

PARUL UNIVERSITY

FACULTY OF MANAGEMENT

MBA Winter 2017 - 18 Examination

Semester: 2 **Date: 11/01/2018**
Subject Code: 06200153 **Time: 02:00pm to 04:30pm**
Subject Name: Financial Management **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.1Do as Directed.

A).Multiple choice type questions/Fill in the blanks. (Each of 1 mark) **(05)**

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

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

2. An Insurance linked Fund requires a single investment of Rs. 10,000 today at a compound interest rate of 9%. The lock-in period is 20 years for this Fund. What will be the future value of this investment after 20 years?

   a) Rs. 59,066 c) Rs. 46,044
   b) Rs. 49,066 d) Rs. 56,044

3. Which of the following is not a cash outflow for a firm?

   a) Dividends c) Tax Payment
   b) Interest Expense d) Depreciation

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

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

5. Which one of the following is/are an assumption(s) underlying the Modigliani and Miller Position analysis?

   a) Perfect Capital market c) Equivalent Risk Classes
   b) Rational Investors and Managers d) All of these.

B).Define the following. (Each of 1 mark) **(05)**

1. Agency Problem
2. Payback Period Method of Cash flow Discounting
3. Weighted Average Cost of Capital (WACC)
4. Mortgage
5. Annuity

C).Direct questions. (Each of 1 mark) **(05)**

1. Why does money have time value?
2. What is EOQ model in inventory management?
3. What is Operating Cycle in Working capital management?
4. What are the key dimensions of Dividend Policy?
5. Enlist the sources of long term finance.

Q.2 Answer the following questions.

A). What are the functions of the Financial System? **(07)**

B). What are the discounted and non-discounted techniques used in capital budgeting decision process? Explain the NPV ratio technique with an example. **(08)**

Q.3 Answer the following questions.

A). Phinolex Ltd. has an EBIT of Rs. 200 crore, contribution or Rs. 400 crore and Interest expense of Rs. 100 crore. Calculate and Interpret Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL) and Degree of Combined Leverage (DCL) for Phinolex Ltd. **(07)**

B). A SSI Firm borrows from a Cooperative Bank for 4 years, Rs. 1,00,00,000 to buy a new equipment. If the Bank agrees to receive an equal annual installment at the end of every year, and if the rate of interest is 5% compounded annually-- calculate the amount of installment that the SSI firm has to pay to the Bank every year and also prepare the loan amortization schedule for this Bank loan. **(08)**

Q.4 Attempt any two questions. **(Each of 7.5 mark)** **(15)**

1. 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

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. Explain Modigliani & Miller position of capital structure theory – in which investment and dividend decisions are related. Also state the assumptions of this Position.

4. Texas Hydro Power Ltd. is considering two investment proposals. Project A which is a multipurpose dam or Project B which is a reservoir dam only at the same site. These projects are exclusive in nature. The expected cash flows of these projects are as follows:

Year	Project A ('00 $)	Project B (' 00 $)
0	(1000)	(1600)
1	200	200
2	600	400
3	500	600
4	400	800
5	300	1000

If the cost of capital is 10%, which project of the two would Texas Hydro Power Ltd. choose, if its decision is solely based on Net Present Value Discounted Cash Flow technique of capital budgeting?