

PARUL UNIVERSITY
FACULTY OF MANAGEMENT
MBA., Summer 2017-18 Examination

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

Date: 24-05-2018
Time: 10:30AM to 01:00PM
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 type questions/Fill in the blanks. (Each of 1 mark) (05)**

1. Return on Investment may be improved by:

| | |
|------------------------|-----------------------------------|
| a) Increasing Turnover | c) Increasing Capital Utilization |
| b) Reducing Expenses | d) All of the above |
2. Which of the following helps analysing return to equity Shareholders?

| | |
|-----------------------|-------------------------|
| a) Return on Assets | c) Net Profit Ratio |
| b) Earnings Per Share | d) Return on Investment |
3. Which of the following is not an inventory?

| | |
|-----------------|----------------------|
| a) Machines | c) Finished products |
| b) Raw material | d) Consumable tools |
4. The following classes of costs are usually involved in inventory decisions except

| | |
|---------------------|----------------------|
| a) Cost of ordering | c) Cost of shortages |
| b) Carrying cost | d) Machining cost |
5. In calculating earning per share (EPS), the net profit is divided by which of the following?

| | |
|--------------------------------|-----------------------|
| a) Number of ordinary shares | c) Paid up capital |
| b) Number of preference shares | d) Authorized capital |

B). Define the following. (05)

1. Profit maximization
2. Sinking fund
3. Right issue of equity share
4. Replacement value
5. Credit standards

C). Direct questions. (05)

1. What are the basic functions of financial management?
2. What is net present value?
3. What is pure discount bonds?
4. What are three C's for credit analysis?
5. What is Economic order quantity?

Q.2 Answer the following questions.

- A).** Maturity of 5 years bond, paying 6 percent interest on the face value of Rs. 1000 and currently selling for Rs. 883.40. Find out yield to maturity. **(07)**
- B).** Explain any four techniques of investment decisions along with acceptance rules. **(08)**

Q.3 Answer the following questions.

- A).** Suppose you have borrowed a three year loan of Rs 1,00,000/- at 9% from a bank to buy a bike calculate annual installment and show Loan Amortization Schedule. **(07)**
- B).** "Walter's model of dividend policy states that the dividend policy of a company has an effect on its valuation." Explain. **(08)**

Q.4 Attempt any two questions.

(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. Maahi Ltd. Is expecting a before-tax rate of return of 24% on the estimated total investment of Rs. 500,000. The firm is considering two alternative financial plans:
 - i) Either to raise the entire funds by issuing 50,000 ordinary shares at Rs. 10 per share,
or
 - ii) To raise Rs. 2,50,000 by issuing 25000 ordinary shares at Rs. 10 per share and borrow Rs. 2,50,000 at 15% rate of interest. the tax rate is 50%.

What are the effects of the alternative plans on the share holders’ earnings?

3. Kartavya enterprise has no debt in its capital structure. It has an expected annual operating income of Rs. 1,00,000 and the equity capitalization rate of 10 percent. Now assume that the firm is able to change its capital structure replacing equity by debt of Rs. 3,00,000. The cost of debt is 5 percent.
Find out the value of the firm and weighted average cost of capital.
4. Explain The Miller- Orr model for optimum cash balance under uncertainty in detail.