

**PARUL UNIVERSITY**  
**FACULTY OF MANAGEMENT**  
**MBA Summer 2018-19 Examination**

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

**Date: 20 /04/2019**  
**Time: 10:30AM to 1:00PM**  
**Total Marks: 60**

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**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 (Each of 1 mark)****(05)**

- 1. The only feasible purpose of financial management is**
  - a. Revenue Maximization
  - b. Profit Maximization
  - c. Wealth Maximization
  - d. Assets Maximization
- 2. If the interest rate is 12% , what is the doubling period as per rule 72?**
  - a. 8 years
  - b. 7 years
  - c. 6 years
  - d. 5 years
- 3. In \_\_\_\_\_ approach, the capital structure decision is relevant to the valuation of the firm.**
  - a. Net Income
  - b. Modigliani & Miller
  - c. Net Operating Income
  - d. None of the above
- 4. Retained earnings per share as a percentage of earnings per share is**
  - a. Dividend Pay Out Ratio
  - b. Retention Ratio
  - c. Capital Gains
  - d. Dividend Yield
- 5. Which of the following is not an inventory?**
  - a. Work in process
  - b. Machines
  - c. Finished goods
  - d. Raw material

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

1. NPV
2. Perpetuity
3. Agency Problem
4. Floatation Cost
5. Safety Stock

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

1. Why does money have time value?
2. What is economic order quantity?
3. What is operating cycle in working capital management?
4. What are the costs associated with holding inventory?
5. What is pure discount bond?

**Q.2 Answer the following questions.**

- A). Under what circumstances do the net present value and internal rate of return methods differ? (07)  
Which method would you prefer and why?
- B). Explain the Net Income (NI) and Net Operating Income (NOI) approaches with graph. (08)

**Q.3 Answer the following questions.**

- A). A house owner has rented out his house for 5 years at a rent of Rs. 40,000/- with an agreement that rent will increase by 6% every year. If the owners required rate of return is 9%, what is the present value of expected rent? (07)
- B). Critically examine the assumptions underlying the irrelevance hypothesis of MM regarding dividend distribution. (08)

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

- 1 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.
- 2 A company has an average cost of capital of 18% and hence its required rate of return is 18%. The company has an investment opportunity in a project, the details of which are as under :

Year	Cash Flow (Rs)
0	-5,00,000
1	50,000
2	1,50,000
3	3,00,000
4	2,00,000
5	1,00,000

Using the IRR method, you are required to help the company decide whether it should invest in the project or not.

- 3 G Ltd. produces a product which has a monthly demand of 4,000 units. The product requires a component X which is purchased at Rs. 20. For every finished product, one unit of component is required. The ordering cost is Rs.120 per order and the holding cost is 10% p.a. You are required to calculate :
- (i) Economic order quantity.
- (ii) If the minimum lot size to be supplied is 4,000 units, what is the extra cost, the company has to incur?
- 4 ABC ltd has equity capital of Rs. 3000000 and equity share is of Rs 100 each. The shares are currently quoted at par. The company proposes a dividend of Rs. 10 per share at the end of current financial year. The capitalization rate to the risk to which company belongs is 12%. What will be market price of the share at the end of the year if,
- (i) Dividend is not declared
- (ii) Dividend is declared
- Assuming that company pays the dividend and has net Profit Rs.300000 and makes a new investment of Rs. 400000 during the period, how many new shares must be issue? Use MM model.