Seat No: _______________ Enrollment No: _______________

PARUL UNIVERSITY

FACULTY OF COMMERCE

B.Com (Hons) Winter 2019-20 Examination

Semester: 4 **Date: 23-11-2019**
Subject Code: 16100253 **Time: 2:00pm to 4:30pm**
Subject Name: Financial Management I **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. (Each of one mark) **(06)**

1. "Shareholder wealth" in a firm is represented by:
   - a) The number of people employed in the firm.
   - b) the book value of the firm's assets less the book value of its liabilities
   - c) The amount of salary paid to its employees.
   - d) The market price per share of the firm's common stock.
2. The long-run objective of financial management is to:
   - a) Maximize earnings per share.
   - b) Maximize the value of the firm's common stock.
   - c) Maximize return on investment.
   - d) maximize market share
3. The focal point of financial management in a firm is:
   - a) The number and types of products or services provided by the firm.
   - b) The minimization of the amount of taxes paid by the firm.
   - c) The creation of value for shareholders.
   - d) the dollars profits earned by the firm
4. In finance, "working capital" means the same thing as
   - a) Total assets.
   - b) Fixed assets.
   - c) Current assets.
   - d) Current assets minus current liabilities.
5. Net working capital refers to
   - a) Total assets minus fixed assets.
   - **b**) Current assets minus current liabilities.
   - c) Current assets minus inventories.
   - d) Current assets.
6. Permanent working capital
   - a) Varies with seasonal needs.
   - b) Includes fixed assets.
   - c) Is the amount of current assets required to meet a firm's long-term minimum needs.
   - d) Includes accounts payable.

B) Definitions / One-liners / Terms. (Each of one mark) **(06)**

1. Financial Planning
2. Future Value
3. Leverage
4. Dividend
5. Capital Structure
6. EBIT

Q.2 Numerical / Short Note Questions. (Each of 04 mark) **(12)**

1. Explain what is profit maximization and wealth maximization?
2. Aims of Finance Function in brief.
3. Factors influencing a sound financial plan in brief.

Q.3 Answer the following. (Any Three) **(18)**

1. Role of a Financial Manager in detail.
2. Explain what Gorden's model of Dividend policy is. Explain with Example.
3. The earnings per share of a company are Rs 10. It has an internal rate of return of 15% and the capitalization rate of its risk class is 12.5%.if Walter's model is used: (i) what should be t he optimum payout ratio of the firm? (ii) What would be the price of the share at this payout? (iii) How shall the price of the share be affected if a different payout were employed?
4. A company's current price of share is Rs 60 and dividend per share is Rs 4. If its capitalization rate is 12% what is dividend growth rate?

Q.4 Answer the following. (Any two) **(18)**

1. (a) Selling price per unit Rs. 20
   Variable cost per unit Rs. 12
   Actual sales 200 units
   Installed capacity 300 units
   Calculated operating leverage in each of the following two situations.
   (i) when fixed costs are Rs. 1000
   (ii) When fixed costs are Rs. 800.
2. (a) A Rs 100perpetual bond is currently selling for Rs 95.The coupon rate of interest is 13.5% and the appropriate discount rate is 15%. Calculate the value of bond. Should it be bought? What is the yield of Maturity?
   (b) A company proposes to sell ten-year debentures of Rs 10,000 each. The company would repay Rs 1,000 at the end of every year and will pay interest annually at 15% on the outstanding amount. Determine the present value of the debentures issue if the capitalization rate is 16%.

   PVF 16% - 0.862, 0.743, 0.641, 0.552, 0.476, 0.410, 0.345, 0.305, 0.263, 0.227
3. A company is considering the following investment projects:

Project	C0	C1	C2	C3
A	-10,000	10,000		
B	-10,000	17,500	+7,500	
C	-10,000	12,000	+4,000	12,000
D	-10,000	10,000	+3,000	13,000

(a) Rank the project according to each of the following methods: (i) Payback (ii) ARR (iii) IRR and (iv) NPV assuming discount rates of 10 a d 30 per cent.