Seat No:______________ Enrollment No:__________

PARUL UNIVERSITY

FACULTY OF LAW

I-B.Com. LL.B Summer 2017 – 18 Examination

Semester: 4 **Date: 12/05/2018**
Subject Code: 16100253 **Time: 10.30 am to 1.00 pm**
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

A) Choose the correct option. (Each of 01 mark) **(06)**

1. The field of finance is closely related to the fields of:
   A. Statistics and economics
   B. Statistics and risk analysis
   C. Economics and accounting
   D. Accounting and comparative return analysis
2. Operating leverage may be defined as:
   A. The degree to which debt is used in financing the firm
   B. The difference between price and variable costs
   C. The extent to which capital assets and fixed costs are utilized
   D. The difference between fixed costs and the contribution margin
3. The cash conversion cycle equals:
   A. Inventory period + collection period - payables period
   B. Payables period - inventory period - collection period
   C. Payables period + inventory period - collection period
   D. Inventory period - collection period + payables period
4. Dividends may be considered relevant because:
   A. They increase the investor's overall return
   B. A higher return will be earned than with retained earnings
   C. They are preferred by investors in higher tax brackets
   D. They resolve uncertainty in the minds of investors
5. __________ is a fixed payment (or receipt) at the end of each year for a specified number of years.
   A. Perpetuity
   B. Annuity
   C. Annuity Due
   D. Perpetuity Due
6. Which of the following is/are limitation/s of Profit Maximization Concept?
   A. It is vague
   B. Ignores timings of returns
   C. Ignores risk
   D. All of the above

B) Answer the following. (Each of 01 mark) **(06)**

1. Net Operating Cycle
2. Wealth Maximization
3. Dividend
4. Capital Budgeting
5. Combined Leverage
6. Financing Decision

Q.2 Answer the following. (Each of 04 mark) (12)

1. Calculate the Degree of Operating leverage, Degree of Financial Leverage and Degree of Combine Leverage for the following data related to Firm A & Firm B .

	Firm A	Firm B
Output(Units)	15,000	60,000
Fixed Cost Rs.	14,000	7000
Variable Cost per unit Rs.	1.50	0.20
Interest on Borrowed Fund Rs.	8000	4000
Selling Price per Unit Rs.	5.00	0.60

2. In what ways is the wealth maximizing objective superior to the profit maximization objective?
3. Define Dividend Decisions. Discuss the Walter's Dividend Relevance models with its assumptions and criticisms.

Q.3 Answer the following. (Any Three) (Each of 06 Mark) (18)

1. Which alternative would you choose amongst the following considering the highest present values of the alternatives?
   A. An annuity of Rs 5000 at the end of each year for 30 years
   B. An amount of Rs.60,000 after 10 years
   C. Rs 50000 in cash right now.

   In each case, the time value of money is 10%.

2. A Company earns Rs 10 per share at an internal rate of 15 %. The firm has a policy of paying 40 per cent of earning as dividend. If the required rate of returns is 10 per cent, determine the price of the share under
   (a) Walter's model
   (b) Gordon's model

3. Define Capital budgeting decisions with different types of Investment decisions. How NPV is more important than IRR?

4. What is a bond? Is it same as a debenture? What are the features of a bond?
5.

Q.4 Answer the following. (Any two) (Each of 09 Mark) (18)

1. Define Working Capital Management. Briefly explain the factors that determine the working capital needs of a firm.
2. The pro-forma of cost sheet of a company provides the following particulars:

	Amount per unit(Rs)
Raw material	80
Direct Labour	30
Overhead	60
Total Cost	170
Profit	30
Selling Price	200

(a) Raw material in stock, on an average one month; material in process, on an average half a month; finished goods in stock, on an average one month.

(b) Credit allowed by suppliers is one month; credit allowed to debtors is two month; lag in payment of wages is one and half weeks; lag in payment of overhead expenses is one month; one-forth of the output is sold against the cash; cash in hand is expected to be Rs, 25000.

You are require to prepare a statement showing the working capital needed to financing a level of activity of 104000 units of production. You may assume that production is carried on evenly throughout the year and wages and overheads accrue similarly.

3. Consider the following projects:

Cash flow (Rs.)					
Projects	C0	C1	C2	C3	C4
P	-1000	600	200	200	1000
Q	-1000	200	200	600	100
R	-1300	100	100	100	1600
S	-1300	0	0	300	1600

Determine

1. Net Present Value(NPV)
2. Internal Rate of Return (IRR)
3. Profitability Index (PI)
4. Payback period (PB)
5. Discounted PB (DPB)
6. Accounting Rate of Return (ARR)

If the rate of return is 10 % and Cost of capital is 12%.