Dr. Babasaheb Ambedkar Open University
Term End Examination July – 2018

Course	:	**PGDF**	**Date**	:	**19-07-2018**
Subject Code	:	**PGDF-102**	**Time**	:	**03:00pm to 06:00pm**
Subject Name	:	**Financial Management**	**Duration**	:	**03 Hours**
			Max. Marks	:	**70**

Section A

Answer the following (Attempt any three) **(30)**

1. What is financial management? Explain objectives of financial management.
2. What is capital structure? Write different Capital structure theories.
3. Defined working capital and its types in detail.
4. A choice is to be made between two competing proposals on the basis of NPV and PI. Which require an equal investment of Rs.50,000 and are expected to generate net cash flows as under, Cost of capital of the company is 10%

Year	1	2	3	4	5	6
Net cash flow A	25000	15000	10000	Nil	12000	6000
Net cash flow B	10000	12000	18000	25000	8000	4000

Year	1	2	3	4	5	6
PV factors	0.909	0.826	0.751	0.683	0.621	0.564

5. Explain the concept of derivatives with its different types.

Section B

Answer the following (Attempt any four) **(20)**

1. Write a short note on long term sources of finance
2. Explain inventory management techniques
3. Spice jet airlines issued 20,000 10% preference share of Rs. 100 each. Cost of issue is Rs.2 per share. Calculate cost of preference capital if these shares are issued (a) at premium of 10% and (b) at discount of 5%.
4. A firm has sales of Rs. 5,00,000 Variable Cost Rs. 3,50,000 and Fixed cost Rs. 1,00,000 and debt of Rs. 2,50,000 at 10% rate of interest. What are the operating, financial and combined leverages?
5. What are the steps involved in Financial Planning
6. Discuss Investment decisions using capital rationing

Section C

Part – A (Multiple Choice Questions) **(10)**

1 1. _____is one of the long term objective of financial management.

A Maximization of firm‘s wealth B Maximization of firm‘s Profit
C Maximization of firm‘s Sales D Maximization of firm‘s Production

2 _____evaluates how funds are used and procured

A Marketing Management B Production Management
C Financial Management D Human Resource Management

3 The firm should select only those capital investment proposals whose net present value is _____.

A Equal B Positive
C Negative D None

4 _____includes spending money on the basic necessities like food, shelter, and clothing

A Saving B Investment
C Consumption D None of the above

5 _____ is the study of the economic decisions of individuals and firms.

A Macro economics B Micro economics
C Both D None of the above

6 _____is neither a pure science nor an art.

A Financial Management B Accounting
C Marketing management D Taxation

7 Investment in long-term assets for increasing the revenue of firm is called as _____.

A Capital ratio B Capital structure
C Cost of Capital D Capital budgeting‘

8 _____combine the attributes of equity shares and debentures

A Bonds B Equity shares
C Bonus shares D Preference shares

9 The _____can be used as a tool to evaluate the financial performance of top management

A Working capital B Capital structure
C Capital Budgeting D Cost of capital

10 _____ can be for any amount as per the requirement of individual Parties.

A Future contract B Forward contract
C Both D None of the above

Part – B

True or False **(10)**

1 Marketing is one of the main functions of finance manager
2 NCDs are pure debentures without a feature of conversion
3 The Capital structure should be such that the dilution of control should be maximum
4 The cost of capital is an expected return that the provider of capital plans to earn on their investment
5 Gross working Capital is the difference between current assets and current liabilities
6 The EOQ is the optimal order size that results in the lowest total of order and carrying cost for an item of inventory given its expected usage, carrying cost and ordering cost
7 If the actual payback period is less than the pre-determined pay back, the project would be rejected.
8 The payments delayed by the customers will lead to increased receivables
9 Dividend on debentures or Term loans has to be paid whether there is any profit or not.
10 The Derivatives are most modern financial instruments in hedging risk.