

**Dr. Babasaheb Ambedkar Open University**  
**Term End Examination January – 2019**

<b>Course</b>	<b>: PGDF</b>	<b>Date</b>	<b>: 14/02/2019</b>
<b>Subject Code</b>	<b>: PGDF-102</b>	<b>Time</b>	<b>: 03:00pm to 06:00pm</b>
<b>Subject Name</b>	<b>: Financial Management</b>	<b>Duration</b>	<b>: 03 Hours</b>
		<b>Max. Marks</b>	<b>: 70</b>

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**Section A**

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

**(30)**

1. Which are the Long Term Sources of Finance you would prefer for investment in assets like land and buildings? Use example where required.
2. How will you narrate functions of Finance and Management in detail?
3. What are the types of Working Capital? How will you describe it?
4. The working results of two machines are given below

	<b>Machines 1 (Rs)</b>	<b>Machines 2 (Rs)</b>
Cost	45,000	45,000
Sales per Year	1,00,000	80,000
Total cost per year (excluding depreciation)	36,000	30,000
Expected life	2 Years	3 Years

Which of the two should be preferred as per Accounting Rate of Return method?

5. From the following details you are required to make an assessment of the working capital requirement of AFC Ltd.

<b>Particulars</b>	<b>Average period of credit</b>	<b>Estimate for the 1st year (Rs.)</b>
Purchase of material	6 weeks	26,00,000
Wages	1½ Weeks	19,50,000
Overheads:		
Rent, Rates, etc	6 months	1,00,000
Salaries	1 month	8,00,000
Other overheads	2 months	7,50,000
Sales cash		2,00,000
Credit sales	2 months	60,00,000
Average amount of stocks and work-in-progress		4,00,000
Average amount of un drawn profit		3,00,000

**Section B**

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

**(20)**

1. Which are the points you can consider in support of Financial Planning? Explain in brief.

2. From the following data calculate financial, operating and combined leverage.  
Sales: 10,000 units Rs. 25 per unit as the selling price Variable cost: Rs. 5 per unit  
Fixed cost. Rs, 30,000 Interest cost: Rs. 15,000.
3. A Company issues 10% Debentures of Rs 100/- each at par. Cost of Issue (also known as Floatation Cost) is 3% of the issue price. Calculate Kd before and after tax (Cost of Debenture) if applicable tax rate is 40%.
4. Explain Capital Structure theory with the help of traditional approach. Provide example where it is needed.
5. Which are the types of cost of capital? Elaborate.
6. A project requires an initial cash outlay of Rs. 5,00,000/- and generates cash inflows as under, find what will be the payback period for the same?

Year	Cash Inflows(Rs.)
1	50000
2	100000
3	125000
4	200000
5	50000
6	50000
7	50000
8	25000

### Section C

#### Part – A (Multiple Choice Questions)

(10)

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 resources      D None of the above
2. The firm should select only those capital investment proposals whose net present value is \_\_\_\_\_.  
 A Positive      B zero  
 C negative      D None of the above
3. The \_\_\_\_\_ of the firm will not be affected by the new investments.  
 A Firm Structure      B Fund structure  
 C capital structure      D None of the above
4. The cost of preference share capital is the dividend expected by its \_\_\_\_\_.  
 A Supplier      B Labour  
 C Employees      D Investors
5. The cost of debt is the rate of interest payable on \_\_\_\_\_ obtained through the issue of debentures.  
 A Equity capital      B Debt Capital  
 C Cost of equity capital      D None of the above
6. \_\_\_\_\_ on debentures or Term loans has to be paid whether there is any profit or not.  
 A Dividend      B Payment  
 C Interest      D None of the above

- 7 According to Modigliani and Miller, the net operating income approach explains the relationship between \_\_\_\_\_ and cost of capital in three propositions.  
 A Leverage B Cost of fund  
 C Hedge fund D None of the above
- 8 \_\_\_\_\_ is defined as the excess of current assets over its current liabilities and provision.  
 A Profit B Net profit  
 C Working capital D None of the above
- 9 The use of the \_\_\_\_\_ sources of funds, such as debt and preference capital with owners equity in the capital structure is described as financial leverage or training on equity.  
 A fixed B Total  
 C variable D None of the above
- 10 The plan that a company incorporates for its financing is referred to as the \_\_\_\_\_ of the company.  
 A Debt capital B Equity Share capital  
 C Capital structure D None of the above

**Part – B (Do as Directed)**

**(10)**

**State whether the following statements are true or false**

- 1 Marketing is one of the main functions of finance manager.
- 2 Historical cost represents the cost which has already been incurred for financing project.
- 3 The mix of debt and equity is known as the firm's capital structure.
- 4 If a company cannot earn sufficient losses, shareholders will be dissatisfied
- 5 Higher the leverage, higher is the company's commitments in terms of interests and loan repayments.
- 6 The Net Income Approach (NI) assumes that the cost of debt and that of equity are independent to capital structure.
- 7 In accounting, cash flow is the difference between the inflow and outflow of funds.
- 8 Technology developments related to the production-process have a sharp impact on the need for working capital.
- 9 The annual cycle refers to the average time elapses between the acquisition of raw materials and the final cash realization.
- 10 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.