

University of Mumbai
Examination June 2021

Examinations Commencing from 1st June 2021

Program: BE

Curriculum Scheme: Rev2016

Examination: BE Semester VIII

Course Code: ILO8022 and Course Name: Finance Management

Time: 2 hour

Max. Marks: 80

| Q1. | Choose the correct option for following questions. All the Questions are compulsory and carry equal marks |
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| 1. | Which of the following factors does NOT affect the firms Dividend Decision? |
| Option A: | Industry Type |
| Option B: | Current Share Price |
| Option C: | Age of the company |
| Option D: | Earnings |
| 2. | Which of the following is NOT a characteristic of money market instruments? |
| Option A: | Safety |
| Option B: | Liquidity |
| Option C: | Low Transaction Fees |
| Option D: | Volatility |
| 3. | Which of these is the correct formula for calculating Current Ratio? |
| Option A: | Net Working Capital / Net Assets |
| Option B: | Current Assets / Current Liabilities |
| Option C: | Sales / Inventory |
| Option D: | 360/ Inventory Turnover Ratio |
| 4. | A firm deposits Rs. 5,000 at the end of each year for 4 years at 6 % per annum. How much will this annuity accumulate at the end of fourth year? |
| Option A: | Rs. 21,200 |
| Option B: | Rs. 25,000 |
| Option C: | Rs. 21,873 |
| Option D: | Rs. 22,400 |
| 5. | If a firm has surplus funds for a very short duration of time, in which of the given options should the firm invest those funds? |
| Option A: | Equity Shares |
| Option B: | Government Treasury Bills |
| Option C: | Equity Mutual Funds |
| Option D: | Preference Shares |
| 6. | Rs. 1,000 is invested at 12% per annum for 2 years. What is the value at the end of 2 years if compounded semi-annually? |
| Option A: | Rs. 1120 |
| Option B: | Rs. 1262 |
| Option C: | Rs. 1254 |
| Option D: | Rs. 1270 |
| 7. | Which of these ratios tell us how efficiently the firm manages its assets? |
| Option A: | Liquidity Ratios |
| Option B: | Profitability Ratios |
| Option C: | Activity Ratios |
| Option D: | Capital Structure Ratios |

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| 8. | Percentage of profits retained and reinvested in the firm is known as ? |
| Option A: | Payout Ratio |
| Option B: | Current Ratio |
| Option C: | PE Ratio |
| Option D: | Retention Ratio |
| 9. | Which of the following institutions are parts of the Financial System? |
| Option A: | Insurance Companies |
| Option B: | Commercial Banks |
| Option C: | Asset Management Companies |
| Option D: | All of the above |
| 10. | Which of the following does not affects a firm's capital structure? |
| Option A: | P/E Ratio |
| Option B: | Regularity of earnings |
| Option C: | Nature of business |
| Option D: | Size of business |
| 11. | A company has issued debentures of Rs. 50 lakhs to be repaid after 7 years. How much should the company invest in a sinking fund earning 12 % in order to be able to repay debentures? |
| Option A: | Rs. 4,95,588 |
| Option B: | Rs. 7,14,000 |
| Option C: | Rs. 6,00,000 |
| Option D: | Rs. 6,25,000 |
| 12. | Which of these is a characteristic of an optimal capital structure |
| Option A: | Maximize Risk |
| Option B: | Adequate Liquidity |
| Option C: | Complicated Structure |
| Option D: | Over Capitalization |
| 13. | Shares issued to exceptional employees or directors of the company because they provide know-how or intellectual property rights to the company are known as? |
| Option A: | Rights Shares |
| Option B: | Bonus Shares |
| Option C: | Sweat Equity Shares |
| Option D: | Initial Public Offering |
| 14. | Which of these is a part of Operating Cash flows? |
| Option A: | Cash payments to suppliers |
| Option B: | Payment of Dividends |
| Option C: | Cash received from sale of assets |
| Option D: | Cash repayment of debentures |
| 15. | Which of these is NOT a motive for a firm to hold cash? |
| Option A: | Transactions Motive |
| Option B: | Legal Motive |
| Option C: | Precautionary Motive |
| Option D: | Speculative Motive |
| 16. | Which of these is a type of Investment Decision for a firm? |
| Option A: | Expansion |
| Option B: | Diversification |
| Option C: | Replacement |
| Option D: | All of the above |
| 17. | Which of these is a type of Inventory Control System? |
| Option A: | Just in Time |
| Option B: | Kaizen |
| Option C: | Poka-Yoke |

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| Option D: | FMEA |
| 18. | Mr. ABC placed Rs. 10,000 in his savings account at 5 % interest per annum. How much will the amount grow at the end of 5 years? |
| Option A: | Rs. 10,500 |
| Option B: | Rs. 12,500 |
| Option C: | Rs. 15000 |
| Option D: | Rs. 12,763 |
| 19. | Which of the following market enables currency conversion for international trade settlements and investments? |
| Option A: | Stock Market |
| Option B: | Bond Market |
| Option C: | Foreign Currency Markets |
| Option D: | Commodity Exchange |
| 20. | Why do some companies sell goods on credit? |
| Option A: | Legal Considerations |
| Option B: | Excess Funds |
| Option C: | Industry Practice |
| Option D: | Government Rule |

| Q2 (20 Marks) | Solve any Four out of Six (5 marks each) |
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| A | An investor bought 100 shares of ABC Ltd @ Rs. 225 per share at the beginning of the year. The par value of each share is Rs. 10. The company paid a dividend @25 % during the year. She sells all the shares at the end of the year at the price of Rs. 267.5 per share. Calculate the total returns she received. |
| B | Assume that Project X costs Rs. 2500 now and is expected to generate year-end cash inflows of Rs. 900, Rs. 800, Rs. 700, Rs. 600 and Rs. 500 in years 1 through 5. The opportunity cost of capital may be assumed to be 10%. Should the project be accepted? Evaluate using NPV method |
| C | Preference Shares are called Hybrid Financing Instruments. Explain. |
| D | With reference to Walters Model, explain the effect of dividend policy on different type of firms (Growth, Normal and Declining Firms) |
| E | Explain the limitations of Financial Ratio Analysis |
| F | Write a note on Project Finance |

| Q3 (20 Marks) | Solve any Four out of Six (5 marks each) |
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| A | Write a note on Importance of Capital Budgeting |
| B | Write a note on the Functions of Corporate Finance |
| C | Explain any 5 factors that affect a firms Capital Structure |
| D | Compare: Capital Markets and Money Markets |
| E | An investor holds two equity shares X and Y in equal proportion with the following risk and return characteristics: $E(R_x) = 24\%$, $E(R_y) = 19\%$, $\sigma_x = 28\%$, $\sigma_y = 23\%$. The returns of these securities have a positive correlation of 0.6. Calculate the portfolio risk and return. |
| F | ABC Ltd currently has 1 lakh outstanding shares selling at Rs. 100 each. The firm has net profits of Rs. 10 Lakhs and wants to make new investments of Rs. 20 lakhs during the period. The firm is also thinking of declaring a dividend of Rs. 5 per share at the end of the current fiscal year. The firms opportunity cost of capital is 10%. What will be the price of the share at the end of the year if: <ul style="list-style-type: none"> a. Dividend is not declared b. Dividend is declared c. How many new shares must be issued to finance the investment if dividend is paid? |