UNIVERSITY OF GUJRAT

A WORLD CLASS UNIVERSITY

(M.Com Part-I) **Financial Management**

Roll No: ____________

in words: ____________

Cutting, Overwriting, Erasing, Fluid painting and use of Lead Pencil will earn no marks. Write answer of the Question No.1 and 2 on this sheet and handover it to the supervisory staff of examination within first 35 minutes.

Time Allowed: 35 Minutes ***(OBJECTIVE PART)*** ***Max. Marks: 32*** ***Sign of Supdt.*** ________

1- a) Encircle the correct answer: *1x4*

i) The financial manager is concerned primarily with
- a) The raising of funds on the most favorable terms possible.
- b) The efficient use of funds with the business.
- c) The preparation of financial statement. d) a and b

ii) Which of the following enjoys limited liability?
- a) A General Partnership b) A Corporation
- c) A Sole Partnership d) None of the above.

iii) If the intrinsic value of a stock is greater than its market value, which of the following is a reasonable conclusion?
- a) The stock has a low level of risk. b) The market is undervaluing the stock.
- c) The stock offers a high dividend payout ratio. d) The market is overvaluing the stock.

iv) Marketable securities are primarily
- a) Short term debt instruments b) Short term equity securities.
- c) Long term debt instruments d) Long term equity securities.

v) EBIT is usually the same thing as:
- a) Funds provided by operations. b) Earnings before taxes
- c) Net Income d) Operating Profit

vi) The cost of monitoring management is considered to be a (an)
- a) Bankruptcy Cost. b) Transaction Cost.
- c) Agency Cost d) Institutional Cost.

vii) In a common stock right offering the subscription price is generally.
- a) Set equal to the current market price of the stock. b) Set below the current market price of the stock.
- c) Set above the current market price of the stock. d) Set after the stock goes “extra rights”

viii) Treasury stock is
- a) Common stock issued by any Government b) Preferred stock issued by the Government
- c) Common stock that has been repurchased and is being held by the issuing company. d) A corporation’s common stock outstanding.

b) Encircle True or False: *1x8*

i) The goal of the firm should be to maximize earnings per share. **True/False**

ii) If the money has a time value, then the future value will always be more than the original amount invested. **True/False**

iii) The book value of a firm is equal to the common stock equity account on its balance sheet. **True/False**

iv) Investors can expect to be compensated with higher returns for bearing avoidable or unsystematic risk. **True/False**

c) Fill in the blank *1x4*

i) A series of equal payments or receipts occurring over a specified number of periods is to be known as_________.

ii) Break-even analysis is a technique for studying the relationship among fixed cost,_____________________, profits and sales volume.

iii) The administration of the firm’s _______________________ assets and financing needed to support ___________________ assets is to be known as working capital management.

iv) Depreciation is the systematic allocation of the cost of capital ___________________ over a period of time.

(Continued Overleaf)

2- Give short answers of the following questions: ***2x8***

i) Define Flotation Costs.

ii) Define IPO.

iii) Define Convertible Security.

iv) Define Capital Market.

v) Define Call Option.

vi) Define Economic Value Added (EVE).

vii) Define DISCOUNT RATE.

viii) Define Stakeholders.

Total Marks: 68 + 32 = 100
Pass Marks = 40%

UNIVERSITY OF GUJRAT
A WORLD CLASS UNIVERSITY

(M.Com Part-I) **Financial Management**

Roll No: ____________

Time Allowed : 2:25 hrs
Max. Marks : 68

Attempt **FOUR** Questions in all. All Questions carry equal marks.

SUBJECTIVE PART

3- As part of your financial planning, you wish to purchase a new car exactly 5 years from today. The car you wish to purchase cost $2 million today, and your research indicates that its price will increase by 2% to 4% per year over the next 5 years.

a) Estimate the price of the car at the end of 5 years if inflation is (i) 2 % per year and (ii) 4% per year. *12*
b) How much more expensive will the car be if the rate of inflation is 4% rather than 2%. *5*

4- Star manufacturing is a mature firm in the machine tool component industry. The firm's most recent common stock dividend was $2.40 per share. Because of its maturity as well as its stable sales and earnings, the firm's management feels that dividends will remain at the current level for the foreseeable future.

a) If the required return is 12% what will be the value of Star's common stock? *6*
b) If the firm's risk as perceived by market participants suddenly increases, causing the required return to rise to 20%, what will be the common stock value? *6*
c) Judging on the basis of your findings in parts a and b, what impact does risk have on value? *5*

5- Salena invests the following sums of money in common stocks having expected returns as follows:

Common Stock	Amount Invested	Expected Return
One Legged Chair Co.	$ 6,000	0.14
Acme Explosive Co.	11,000	0.16
Ames-to Please Inc,	9,000	0.17
Sisyphus Transport Co.	7,000	0.13
Excelsior Hair Growth Inc.	5,000	0.20
In Your Face Telemarketing	13,000	0.15
McDonald Farms, Ltd.	9,000	0.18

a) What is the expected return (percentage) on her portfolio? *9*
b) What would be her expected return if she quadrupled her investment in Excelsior Hair Growth Inc. while leaving everything else the same? *8*

6- Project A and B of equal risk, are alternatives for expanding Ross Company's capacity. The firm's cost of capital is 13%. The cash flows for each project are shown in the following table:

Initial Investment	$ 80,000	$ 50,000
	Cash Inflows	
Year	**Project A**	**Project B**
1	$ 15,000	$ 15,000
2	20,000	15,000
3	25,000	15,000
4	30,000	15,000
5	35,000	15,000

Calculate each project's payback period and NPV and IRR for each project. *17*

7- B Company just finished making an annual dividend payment of $20 per share on its common stock. Its common stock dividend has been growing at an annual rate of 10 percent. Waleed requires a 16 percent annual return on this stock. What intrinsic value should Waleed place on one share of B Company common stock under the following situations?

a) Dividends are expected to continue growing at a constant 10 percent annual rate.
b) The annual dividend growth rate is expected to decrease to 9 percent and remain constant at that level. *17*

8- Why do callable bonds typically have a higher yield to maturity than non-callable bonds, holding all other things constant? Is the yield differential between callable and non-callable bonds likely to be constant over time? Why? *17*