

12 MAY 2023

NATIONAL LAW UNIVERSITY, JODHPUR

End Term Examination – 2023

UG VI Semester

Subject: Finance III (Financial Management)

Time: Three Hours

Marks: 100

Instructions:

- i. Simple calculators are permitted.
- ii. Attempt any five questions.
- iii. All questions carry equal marks.

Q.1). In what ways is the wealth maximization objective superior to the profit maximization objective? Explain.

(Marks 20)

Q.2). What is meant by the term “leverage”? What are its types? With what type of risk is each leverage generally associated? Why is increasing leverage also indicative of increasing risk?

(Marks 20)

Q.3). Describe in brief the various factors which are taken into account in determining the working capital needs of a firm.

(Marks 20)

Q.4) The following information is available in respect of a firm:

Capitalization rate (k_c)	10%
Earnings per share (E)	Rs 10

Assumed rate of return on investments (r): (i) 8 (ii) 15

Show the effect of dividend policy on the market price of shares, assuming dividend pay-out ratio as zero percent, 50 percent and 100 percent, using Walter's Model. Interpret the results.

(Marks 20)

Q.5). The projects (A, B and C) are expected to require Rs 200000 (Investment outlay) each have an estimated life of 5 years, 4 years and 3 years respectively and have no salvage value. The required rate of return is 10 percent. The anticipated cash flows after taxes (CFAT) for the three projects are as follows:

Year	CFAT (in Rs)		
	A	B	C
1	50000	80000	100000
2	50000	80000	100000
3	50000	80000	100000
4	50000	30000	10000
5	190000	-	-

Compute and rank each project applying the methods of payback, average rate of return and net present value method. Recommend the project to be accepted according to each of the methods and give reasons.

(Marks 20)

Q.6). Zoho Corporation is an Indian multinational technology company that makes computer software and web-based business tools. It is best known for the online office suite offering Zoho Office Suite. The founders of Zoho have been able to keep it bootstrapped. Identify and explain reasons behind keeping the company bootstrapped and not raising the funds from external sources.

(Marks 20)