Name:

Enrolment No:

UPES

End Semester Examination, May 2024

Course: Financial Management | **Semester: II**

Program: B. Com. L.L.B. (Hons.) | **Time : 03 hrs.**

Course Code: CLNL1046 | **Max. Marks: 100**

Instructions:

SECTION A
5Qx2M=10Marks

S. No.		Marks	CO
Q 1	What does WACC (Weighted Average Cost of Capital) represent? a) The total cost of financing for a company b) The average cost of equity capital for a company c) The cost of debt financing for a company d) The cost of external equity for a company	**2**	**CO1**
Q2	The cost of equity can be determined using which of the following approaches? a) Discounted Cash Flow (DCF) b) Dividend approach c) Debt-to-equity ratio d) Net Present Value (NPV)	**2**	**CO1**
Q3	Implicit costs are best described as: a) Directly measurable costs b) Costs that are difficult to quantify and often overlooked c) Costs incurred for marketing purposes d) Costs associated with variable expenses	**2**	**CO1**
Q4	Which capital budgeting technique considers the cash flows generated by a project? a) TVM (Time Value of Money) b) ARR (Accounting Rate of Return) c) NPV (Net Present Value) d) Payback Period	**2**	**CO1**
Q5	What is a limitation of the payback period method? a) Ignores the time value of money b) Complexity in calculation c) Considers all cash flows equally d) Provides precise results	**2**	**CO1**

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<tr><td colspan="4">SECTION B
4Qx5M= 20 Marks</td></tr>
<tr><td>Q6</td><td>What is the Cost of Capital? Explain the factors affecting Cost of Capital.</td><td>5</td><td>CO2</td></tr>
<tr><td>Q7</td><td>Differentiate between NPV and IRR techniques of Capital Budgeting</td><td>5</td><td>CO2</td></tr>
<tr><td>Q8</td><td>Identify and list the determinants of working capital.</td><td>5</td><td>CO2</td></tr>
<tr><td>Q9</td><td>Examine the saying 'A bird in hand is worth two in the bush' in relation to the time value of money, noting its impact on decision-making and risk assessment.</td><td>5</td><td>CO2</td></tr>
<tr><td colspan="4">SECTION-C
2Qx10M=20 Marks</td></tr>
<tr><td>Q10</td><td>Ghanshyam ltd. Needs Rs. 10,00,000 for expansion. The expansion is expected to yield an annual EBIT of Rs 1,60,000. In choosing financial plan Ghanshyam Ltd. Has an objective of maximizing EPS. It is considering the possibility of issuing equity shares and raising debt of Rs 1,00,000 or 4,00,000 or 6,00,000. The current market price is Rs 25 per share and is expected to drop to Rs 20 per share if the funds are borrowed in excess of Rs 5,00,000. Funds are borrowed at the rates indicated below: a) upto Rs 1,00,000 @ 8%. b) over Rs 1,00,000 and upto Rs. 5,00,000 @ 12%. c) over 5,00,000 @ 18%. Assume tax rate to be 50%. Determine EPS for three financial plans.</td><td>10</td><td>CO3</td></tr>
<tr><td>Q11</td><td>Excel Industrial Ltd. Has assets of Rs. 1,60,000 which have been financed with Rs. 52,000 debt and Rs. 90,000 of equity and a general reserve of 18,000. The firm’s total profits after interest and taxes for the year ended 31st march, 1998 were Rs. 13,500. It pays 8% interests on borrowed funds, and it is in the 50% tax bracket. It has 900 equity shares of Rs. 100 each selling at a market price of Rs.120 per share. What is the weighted average cost of capital?

Or

What does the statement 'cost of equity also has a cost' imply, and how can the cost of equity be computed using different methods?</td><td>10</td><td>CO3</td></tr>
<tr><td colspan="4">SECTION-D
2Qx25M= 50 Marks</td></tr>
<tr><td>Q12</td><td>Following are the details regarding three companies A Ltd., B Ltd. and C Ltd.:
<table><tr><td>A Ltd.</td><td>B Ltd.</td><td>C Ltd.</td></tr><tr><td>r= 15%</td><td>r= 5%</td><td>r= 10%</td></tr><tr><td>Ke= 10%</td><td>Ke= 10%</td><td>Ke= 10%</td></tr><tr><td>EPS = Rs 8</td><td>EPS = Rs 8</td><td>EPS = Rs 8</td></tr></table></td><td>25</td><td>CO4</td></tr>
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<table>
<tr><td></td><td>Calculate the value of an equity share of each of these companies applying Walter’s formula when dividend pay-out ratio (D/P ratio) is: (a) 25%, (b) 50%, (c) 75%. What conclusions do you draw?</td><td></td><td></td></tr>
<tr><td>Q13</td><td>A firm whose cost of capital is 10% is considering two mutually exclusive projects X and Y the details of which are as follows:
<table>
<tr><td></td><td>Year</td><td>Project X</td><td>Project Y</td></tr>
<tr><td>Cost</td><td>0</td><td>1,00,000</td><td>1,00,000</td></tr>
<tr><td>Cash Inflows</td><td>1</td><td>10,000</td><td>50,000</td></tr>
<tr><td></td><td>2</td><td>20,000</td><td>40,000</td></tr>
<tr><td></td><td>3</td><td>30,000</td><td>20,000</td></tr>
<tr><td></td><td>4</td><td>45,000</td><td>10,000</td></tr>
<tr><td></td><td>5</td><td>60,000</td><td>10,000</td></tr>
</table>
Compute the NPV at 10%, Profitability Index and IRR for two projects and suggest which project must be selected based upon these methods.

Or

ABCL Ltd. is a medium-sized manufacturing company, specializing in the production of industrial machinery. With a competitive market landscape and fluctuating economic conditions, the company recognizes the importance of effective financial management to ensure profitability, liquidity, and long-term sustainability. How does ABCL adapt its financial management approach to navigate through competitive market dynamics?</td><td>25</td><td>CO4</td></tr>
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