Name: Enrolment No:	

UPES

End Semester Examination, May 2025

Course: Financial Management **Semester : II**
Program: B.Com. (H) **Time : 03 hrs.**
Course Code: FINC1002 **Max. Marks: 100**

Instructions: Attempt all questions

SECTION A
10Qx2M=20Marks

S. No.		Marks	CO
Q1	The market value of the firm is the result of_____. A. Dividend decisions. B. Working capital decisions. C. Capital budgeting decisions. D. Trade-off between risk and return.	**2**	**CO1**
Q2	Cost of capital is _____. A.Lesser than the cost of debt capital. B.Equal to the last dividend paid to the equity shareholders. C.Equal to the dividend expectations of equity shareholders for the coming year. D.None of the above	**2**	**CO1**
Q3	In Walter model formula D stands for _____. A. Dividend per share. B. Direct dividend. C. Direct earnings D. None of these.	**2**	**CO1**
Q4	Quick asset does not include _____. A. Government bonds. B. Book debts. C. Advance for supply of raw materials. D .Inventories.	**2**	**CO1**
Q5	Current ratio of a concern is 1, its net working capital will be _____. A. Positive. B. Neutral. C. Negative D. None of the above	**2**	**CO1**
Q6	Risk-return trade off implies_____. A. Increasing the portfolio of the firm through increased production. B. Not taking any loans which increases the risk. C. Not granting credit to risky customers.	**2**	**CO1**

	D. Taking a decision in such a way which optimizes the balance between risk and return		
Q7	._____ is not a diversifiable or specific risk factor. A.Company strike. B.Bankruptcy of a major supplier. C.Death of a key company officer. D.Industrial recession.	**2**	**CO1**
Q8	Mr.Anil purchased 100 stocks of futura informatics ltd, for Rs.21 on March 15, sold for Rs.35 on March 14 next year. In the company paid a dividend of Rs.2.50 per share, then Anils holding period return is: _____. A.11.90%. B.45.40%. C.66.70%. D.78.60%.	**2**	**CO1**
Q9	The risk-free rate of return is 8% the expected rate of return on market portfolio is15% the beta of eco boards equity stock is 1.4.the required rate on eco boards equity is: _____. A.15.4%. B.16.8%. C.17.2%. D.17.8%.	**2**	**CO1**
Q10	If a company issues bonus shares the debt equity ratio _____. A. Remain unaffected. B. Will be affected. C. Will improve. D .None of the above.	**2**	**CO1**
SECTION B 4Qx5M= 20 Marks			
Q11	A logistics company wants to install solar panels for ₹25 lakh, expecting to save ₹6 lakh per year for 5 years. If the discount rate is 10%, should they proceed with the investment using NPV? [PVFA (10%,5) =3.7908]	**5**	**CO2**
Q12	A company is evaluating an investment opportunity that promises ₹2,00,000 after 3 years. The required rate of return is 10%. Explain how the company should apply the present value concept to decide whether this investment is worthwhile today? Why is discounting future cash flows critical in such decisions?	**5**	**CO2**
Q13	An investor is comparing two stocks: Stock A has a higher expected return but also higher volatility; Stock B has lower return with minimal risk. Discuss how the risk-return trade-off plays a role in the investor's decision. Why might a risk-averse investor prefer Stock B despite its lower returns?	**5**	**CO2**
Q14	A retail chain is planning to open a new store with an initial investment of ₹20 lakh. The store is expected to generate an annual accounting profit of	**5**	**CO2**

	₹3.5 lakh (after depreciation). If the expected ARR benchmark is 15%, should the company proceed?		
SECTION-C 3Qx10M=30 Marks			
Q15	An investor is considering investing ₹10 lakh in a tech startup. The expected cash inflows are: Year 1: ₹2.5 lakh; Year 2: ₹3 lakh; Year 3: ₹4 lakh; Year 4: ₹5 lakh If the required rate of return is 12%, should the investor proceed or check for internal return (IRR)? Solve and explain.	**10**	**CO3**
Q16	Explain dividend decision policy. Also explain the theories of relevance and irrelevance of dividend with their advantages and limitations.	**10**	**CO3**
Q17	Beta Ltd. has the following cost structure: Units Sold = 20,000 Selling Price per Unit = ₹150 Variable Cost per Unit = ₹90 Fixed Operating Cost = ₹3,00,000 12% Debentures = ₹5,00,000 **(a) Compute EBIT** **(b) Compute Operating Leverage** **(c) Compute Financial Leverage** **(d) Compute Combined Leverage** **Or** Sigma Textiles Pvt. Ltd., a mid-sized garment manufacturer, is planning to expand its operations by launching a new product line. The CFO has presented two alternative proposals to the management: Option A (High Operating Leverage): Invest in fully automated machinery, which increases fixed costs substantially but reduces variable costs per unit. Option B (Low Operating Leverage): Outsource production, resulting in lower fixed costs but higher variable costs per unit. In addition, the company must decide how to finance the expansion. Two options are under consideration: Option 1 (High Financial Leverage): Take a long-term loan at a fixed interest rate. Option 2 (Low Financial Leverage): Raise funds through equity to avoid fixed interest payments. Management is concerned about the impact of these decisions on the company's profitability, risk, and ability to handle fluctuations in sales volume.	**10**	**CO3**

	As a financial analyst, address the following: a) Explain the concepts of Operating Leverage and Financial Leverage, and how they apply to Sigma's two proposals. b) Discuss the advantages and disadvantages of high versus low leverage in both operating and financial contexts. c) Evaluate the risk implications of combining high operating leverage with high financial leverage. d) Recommend the most suitable combination of options (A/1, A/2, B/1, B/2) based on the company's risk appetite and market conditions.		
SECTION-D 2Qx15M= 30 Marks			
Q18	Calculate the net working capital cycle : XYZ Ltd. provides the following financial data for the year: Raw materials purchased = ₹12,00,000 Average raw material inventory = ₹1,00,000 Cost of goods manufactured (COGM) = ₹18,00,000 Average work-in-progress (WIP) inventory = ₹1,50,000 Cost of goods sold (COGS) = ₹20,00,000 Average finished goods inventory = ₹2,00,000 Total sales revenue = ₹25,00,000 Average accounts receivable = ₹2,50,000 Average accounts payable = ₹3,00,000 qRaw material consumption = ₹10,00,000	**15**	**CO4**
Q19	NeoTech Ltd. plans to raise ₹20,00,000 for expansion. Two financing alternatives are available: Plan A: Entirely through 10% debentures (redeemable in 5 years at par) Plan B: ₹10,00,000 through 10% preference shares (issued at ₹100, face value ₹100), and ₹10,00,000 through equity shares (issued at ₹200, with face value ₹100, expected dividend ₹16, and growth 5%) Flotation costs: Debentures: 2% Preference Shares: ₹4 per share Equity: ₹10 per share Corporate tax rate: 25% **Compute Cost of Debt (Kd)** **Compute Cost of Preference Capital (Kp)** **Compute Cost of Equity (Ke)** **Calculate WACC under Plan A and Plan B, and advise which is preferable.** **Or**	**15**	**CO4**

	Orion Enterprises Ltd., a rapidly growing manufacturing company, is in the process of evaluating its future investment plans. To fund its upcoming expansion project, the company needs ₹100 crores and is considering a mix of financing options: Debt Financing: The company can issue 10-year bonds at 8% interest, but due to its high credit rating, it will receive a tax shield. Preference Shares: It also has the option to raise capital through 10% cumulative preference shares. Equity Financing: Issuing new equity shares is another possibility, although it might dilute control. The cost of equity has been estimated using the Dividend Discount Model (DDM) and CAPM approach. The CFO believes that a careful evaluation of the cost of each component of capital and the WACC is essential to make an informed decision. The Board of Directors is also keen to understand the implications of the capital mix on the firm's overall financial risk and expected return. **As a financial consultant, you are required to:** a) Explain the concepts of Cost of Debt (Kd), Cost of Preference Capital (Kp), and Cost of Equity (Ke). How are they calculated in practical scenarios? b) Define Weighted Average Cost of Capital (WACC). Why is it important in capital budgeting and financing decisions? c) Discuss how changes in the capital structure affect the WACC and firm value. d) Based on theoretical considerations, recommend an ideal capital structure mix for Orion Enterprises, assuming a moderate risk appetite and goal of maximizing shareholder wealth.		