


<b>Name:</b>			
<b>Enrolment No:</b>			
<div><div>UPES</div><div>End-Semester Examination, May 2025</div><div><div>Course: Financial Management</div><div>Program: Int. BBA- MBA</div><div>Course Code: FINC 1002</div></div><div><div>Semester: II</div><div>Time : 03 hrs.</div><div>Max. Marks: 100</div></div></div>			
<b>Instructions:</b>			
<div>SECTION A</div> <div>10Qx2M=20Marks</div>			
Q1.	Multiple choice Questions:	Marks	CO
a)	Receivable management includes: A) Inventory control B) Collection policy C) Plant maintenance D) Shareholder meetings	2	CO1
b)	Risk and return have a: A) Negative relationship B) Positive relationship C) No relationship D) Unpredictable relationship	2	CO1
c)	Dividend policy is influenced by: A) Legal constraints B) Profit levels C) Cash flow D) All of the above	2	CO1
d)	Dividend policy decisions primarily affect: A) Short-term liabilities B) Shareholder value C) Revenue recognition D) Tax planning	2	CO1
e)	ARR stands for: A) Accounting Rate of Return B) Asset Return Ratio C) Actual Risk Rate D) Average Risk Rating	2	CO1
f)	Which of these is not a component of financial management? A) Dividend Policy B) Financial Reporting C) Investment Decision D) Financing Decision	2	CO1
g)	Cost of capital refers to: A) Total capital invested	2	CO1

	B) Minimum return required by investors C) Book value of capital D) Market capitalization		
h)	Capital budgeting involves decisions about: A) Daily cash management B) Working capital C) Long-term investments D) Operating expenses	2	CO1
i)	Net working capital is: A) Gross working capital – depreciation B) Current assets – current liabilities C) Long-term assets – liabilities D) Cash – debt	2	CO1
j)	If NPV > 0, the project is: A) Rejected B) Unprofitable C) Acceptable D) Risky	2	CO1
SECTION B 4Qx5M= 20 Marks			
Q 2.	Distinguish between theories of dividend relevance and irrelevance.	5	CO2
Q 3.	Differentiate between NPV and IRR techniques of capital Budgeting.	5	CO2
Q 4.	Write a short note on EBIT-EPS analysis.	5	CO2
Q 5.	Why is wealth maximization preferred over profit maximization?	5	CO2
SECTION-C 3Qx10M=30 Marks			
Q 6.	XYZ Ltd. has two mutually exclusive projects – Project A and Project B. The initial investment and cash inflows are as follows: <b>Year Project A (₹) Project B (₹)</b> 0     (2,50,000)     (2,50,000) 1     70,000         1,00,000 2     80,000         80,000 3     90,000         70,000 4     1,00,000       60,000  The discount rate is 12%. Compute the NPV for both projects and suggest which project should be chosen. The discount rate at 12% for year 1 to 4 are 0.893, 0.797, 0.712, and 0.636, respectively.	10	CO3
Q 7.	You are provided the following information for MNO Ltd. for the year ended 31st March 2024:  Raw Material Inventory = ₹1,00,000 Work-in-Progress Inventory = ₹50,000 Finished Goods Inventory = ₹75,000	10	CO3

	<p>Cost of Goods Sold (COGS) = ₹9,00,000  Debtors (Accounts Receivable) = ₹1,20,000  Credit Sales = ₹12,00,000  Creditors (Accounts Payable) = ₹90,000  Credit Purchases = ₹6,00,000</p> <p>Additional information:</p> <ul style="list-style-type: none"> <li>Raw material consumption = ₹4,80,000</li> <li>Number of days in a year = 360</li> </ul> <p>Required:</p> <p>a) Calculate the following components:</p> <p>i) Inventory Conversion Period (ICP)  ii) Receivables Conversion Period (RCP)  iii) Payables Deferral Period (PDP)</p> <p>b) Also, Calculate the Operating Cycle and the Cash Conversion Cycle.</p> <p>OR</p> <p>"Efficient working capital management is not just about maintaining liquidity—it is a strategic tool that impacts a firm's profitability, risk, and overall financial health."</p> <p>Discuss this statement critically by addressing the following:</p> <p>a) Analyse how working capital policies (conservative, aggressive, and moderate) influence a firm's risk-return trade-off.  b) Evaluate the impact of inefficient working capital management on the operational cycle and profitability of a firm.</p>		
Q 8.	<p>Following information is available for a firm:</p> <ul style="list-style-type: none"> <li>Selling Price per unit = ₹100</li> <li>Variable Cost per unit = ₹60</li> <li>Fixed Operating Costs = ₹1,50,000</li> <li>Interest Expense = ₹20,000</li> <li>Units Sold = 6,000</li> </ul> <p>Required:</p> <p>a) Calculate the Operating Leverage, Financial Leverage, and Combined Leverage.</p> <p>b) What would happen to EBIT and EPS if sales increase by 10%?</p>	10	CO3
<p align="center"><b>SECTION-D</b>  <b>2Qx15M= 30 Marks</b></p>			
Q 9.	Beta Ltd. has an Earnings per Share (EPS) of ₹10. The Cost of Equity Capital (Ke) is 12%. The company is evaluating its dividend policy using	15	CO4

	<p>Walter's Model under three different scenarios for the internal rate of return (r).</p> <p>Consider three dividend payout ratios:</p> <p>Case I: Payout = 0% (No dividend)</p> <p>Case II: Payout = 50%</p> <p>Case III: Payout = 100% (All earnings paid as dividend)</p> <p>The company is also analyzing the effect under three return scenarios:</p> <p>Scenario A: <math>r = 15\%</math> (<math>r &gt; K_e</math>)</p> <p>Scenario B: <math>r = 12\%</math> (<math>r = K_e</math>)</p> <p>Scenario C: <math>r = 9\%</math> (<math>r &lt; K_e</math>)</p> <p>Required:</p> <p>a) Using Walter's Model, calculate the market price per share for each combination of payout ratio and <math>r</math> (i.e., 9 different cases).</p> <p>b) Comment on how the share price changes with different dividend payout ratios and return levels.</p>		
Q 10.	<p>Sunrise Ltd. has an expected EBIT of ₹4,00,000. The company is considering the use of debt in its capital structure and has two financing plans under evaluation:</p> <p>Plan I (All Equity): 2,00,000 equity shares of ₹10 each.</p> <p>Plan II (Debt + Equity): ₹10,00,000 of 10% debt and the balance in equity (same face value of ₹10 per share).</p> <p>The equity capitalization rate (<math>K_e</math>) is constant at 12% regardless of the financial plan. The company operates in a no-tax environment, consistent with the Net Income (NI) Approach.</p> <p>Required:</p> <p>a) Calculate the value of the firm, market value of equity, and the overall capitalization rate (<math>K_o</math>) under both financing plans.</p> <p>b) Compare the two capital structures and identify which one is preferable based on the Net Income approach.</p> <p>c) Explain why the use of debt affects the overall capitalization rate and firm value under this approach.</p>	15	CO4

OR

Alpha Ltd. has the following capital structure as of 31st March 2024:

- Equity: ₹60 crore
- Last dividend ( $D_0$ ): ₹8 per share
- Dividend growth rate ( $g$ ): 5%
- Current stock price ( $P_0$ ): ₹200
- Redeemable Debt: ₹25 crore
  - Coupon rate: 10%
  - Issued at: ₹100, with 5% flotation cost
  - Redeemable at: ₹115 per bond after 6 years
- Redeemable Preference Shares: ₹40 crore
  - Dividend rate: 12%
  - Issued at: ₹100 per share
  - Redeemable at: ₹130 per share after 8 years
- Corporate tax rate: 30%

Required:

- a) Calculate the cost of redeemable debt and cost of redeemable preference shares.
- b) Compute the firm's Weighted Average Cost of Capital (WACC).
- c) Critically evaluate the impact of increasing the proportion of redeemable preference shares on the firm's WACC.