Name: **Enrolment No:**	UPES UNIVERSITY WITH A PURPOSE

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
Online End Semester Examination, Dec 2020

Course: FINANCIAL MANAGEMENT **Semester: III**
Program: INT B.COM LLB TL **Time 03 hrs.**
Course Code: CLNL2016 **Max. Marks: 100**

SECTION A

1. **Each Question will carry 5 Marks**
2. **Instruction: All questions are compulsory.**

S. No.	**Question**	**CO**
Q 1	(i) If EBIT is Rs. 15,00,000, interest is Rs. 2,50,000, corporate tax is 40%, degree of financial leverage is: a) 1.11 b) 1.20 c) 1.31 d) 1.41 (ii) If DOL is 1.24 and DFL is 1.99, DCL would be _____ (iii) To achieve wealth maximization, the finance manager has to take careful decision in respect of: a) Investment b) Financing c) Dividend d) All of the Above (iv) Capital Budgeting is done for: a) Evaluating short term investment decisions b) Evaluating medium term investment decisions c) Evaluating long term investment decisions d) All of the Above (v) Financial Leverage is calculated as: a) EBIT / Contribution b) EBIT / EBT c) EBIT / Sales d) EBIT / Variable Cost	**CO2 & CO3**
Q2	(i) Weighted Average Cost of Capital as per Market Value Weights do not include: a) Cost of Equity b) Cost of Debt c) Cost of Loan d) Cost of Retained Earnings	**CO1**

	(ii) External sources of finance do not include: a) Debentures b) Retained Earnings c) Overdraft d) Leasing (iii) The most important goal of Financial Management is: a) Profit maximisation b) Matching income and expenditure c) Using business assets effectively d) Wealth maximisation (iv) Which of the following cost of capital require to adjust tax: a) Cost of Equity Shares b) Cost of Preference Shares c) Cost of Debentures d) Cost of Retained Earnings (v) Debt Capital refers to: a) Money raised through the sale of shares b) Funds raised by borrowing that must be repaid c) Factoring accounts receivables d) Inventory Loans	
Q3	Name the types of Decisions of Financial Management.	**CO1**
Q4	A company's requirements for 10 days are 6300 units. The ordering cost per order is Rs. 10 and the carrying cost per unit is Rs. 0.26. You are required to calculate the Economic Order Quantity.	**CO4**
Q5	i) What should be the optimum Dividend Payout Ratio, when r = 15% & Ke =12% : a) 100% b) 50% c) Zero d) None of the above ii) Working Capital is defined as: a) Excess of Current Assets over Current Liabilities b) Excess of Current Liabilities over Current Assets c) Excess of Fixed Assets over Long Term Liabilities d) None of the Above iii) Which of the following is irrelevance theory? a) Walter Model b) Gordon Model c) M.M Hypothesis d) All of the Above iv) The theories on dividend policy do not include: a) MM Model	**CO4**

b) Gordon's Model
c) Walter's Model
d) Jensen's Model

v) Companies having few investment opportunities will show low payout ratios, this statement is:
a) True
b) False
c) Partial True
d) None of these

Q6 Briefly list the various techniques of Capital Budgeting. **CO3**

SECTION B

1. **Each question will carry 10 marks**
2. **Instruction: Write short / brief notes**

Q 7 The following information is collected from the Annual Reports of ABC Ltd. **CO4**

Profit before Tax	Rs 2.50 Crores
Tax Rate	40 per cent
Retention Ratio	40 per cent
Number of Outstanding Shares	50,00,000
Equity Capitalization Rate	12 per cent
Rate of Return on Investment	15 Per cent

What should be the Market Price per Share according to Gordon's Model of Dividend?

Q 8	XYZ Limited is considering the installation of a new project costing Rs 80,00,000. Expected annual sales revenue from the project is Rs 90,00,000 and its variable costs are 60 percent of sales. Expected annual fixed cost other than interest is Rs 10,00,000. Corporate tax rate is 30 percent. The Company wants to arrange the funds through issuing 4,00,000 equity shares of Rs 10 each and 12 percent debentures of Rs 40,00,000. You are required to calculate the Operating, Financial and Combined leverages and Earnings per share (EPS).	**CO2**
Q 9	Rs. 10,000 is invested at interest rate of 12% per annum, what is the amount after 3 years if compounding of interest is done : a) Annually b) Semi – Annually	**CO1**
Q 10	Explain the concept of Cost of Capital and its importance.	**CO1**
Q 11	The Dividend Policy of a Company has implications on its Financing decisions. Discuss & analyze the effect of a firm's Dividend Policy on its market valuation.	**CO4**

Section C

1. **Each Question carries 20 Marks.**
2. **Instruction : Attempt any one.**

Q12 The following is the capital structure of a Company: **CO1 & CO3**

Source of capital	**Book Value (in Rs.)**	**Market Value (in Rs.)**
Equity shares @ Rs.100 each	80,00,000	1,60,00,000
9% Cumulative Preference shares @ Rs.100 each	20,00,000	24,00,000
11% Debentures	60,00,000	66,00,000
Retained Earnings	40,00,000	-
	2,00,00,000	**2,50,00,000**

The current market price of the company's equity share is Rs 200. For the last year the company had paid equity dividend at 25 per cent and its dividend is likely to grow 5 per cent every year. The corporate tax rate is 30 per cent.
You are required to calculate:

(i) Cost of capital for each source of capital.
(ii) Weighted average cost of capital on the basis of book value weights

OR

JKL Limited wants to buy a new automatic packing machine. Two models A and B are available at the same cost of Rs 5 lakhs each. The earnings after taxation are expected to be:

Year	(cash in-flows of)		
	A	**B**	**P.V. Factor @ 15%**
1	1,00,000	2,00,000	0.87
2	1,50,000	2,10,000	0.76
3	1,80,000	1,80,000	0.66
4	2,00,000	1,70,000	0.57
5	1,70,000	40,000	0.50
Sale Value of machine at the end of Year 5	50,000	60,000	

The targeted return on capital is 15%. The machine will be sold by JKL Ltd. at the end of Year 5. You are required to

(i) Compute, for the two machines separately, net present value.

(ii) Advice which of the machines is to be selected?