Note: - Pl. start your question paper from next page

Name:

Enrolment No:

UPES

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, December 2018

Course: Fundamentals of Investment Management **Semester: V**
Programme: B.COM. LLB (Hons) Taxation Laws 2016 **CC: BBCF 232**
Time: 03 hrs. **Max. Marks: 100**
Instructions: Attempt all the Questions

SECTION A

S. No.		Marks	CO
Q 1	Distinguish between explicit and implicit cost.	**2**	**CO3**
Q 2	Brief EBIT- EPS analysis.	**2**	**CO4**
Q 3	What is financial leverage?	**2**	**CO4**
Q 4	What do you mean by security return?	**2**	**CO3**
Q 5	Why do we diversify our portfolio?	**1**	**CO2**

SECTION B

Q 6	What are the steps involved in calculating firm's WACC?	**10**	**CO3**
Q 7	Mahir Considering investing in a bond currently selling for Rs 8785.07 /- . The bond has 4 years to maturity, a Rs 10000 face value, and an 8 % coupon rate. The next annual interest payment is due one year from today. The approximate discount factor for investments of similar risk is 10 %. Calculate the intrinsic value of bond and yield to maturity.	**10**	**CO3**

SECTION-C

<table>
<tr><td>Q 8</td><td>Define a bond. What are the different types of bonds? Explain in detail.</td><td>10</td><td>CO3</td></tr>
<tr><td>Q 9</td><td>A firm has the following capital structure as the latest statement shown
<table>
<tr><td>Sources of Funds</td><td>Rates (Rs)</td><td>After Tax Cost (%)</td></tr>
<tr><td>Debt</td><td>30 lacs</td><td>4</td></tr>
<tr><td>Preferences Shares</td><td>10 lacs</td><td>8.5</td></tr>
<tr><td>Equity Shares</td><td>20 Lacs</td><td>11.5</td></tr>
<tr><td>Retained Earnings</td><td>40 Lacs</td><td>10</td></tr>
<tr><td>Total</td><td>100 Lacs</td><td></td></tr>
</table>
Based on the book values compare the cost of Capital.</td><td>10</td><td>CO4</td></tr>
</table>

<table>
<tr><th colspan="4">SECTION-D</th></tr>
<tr><td>Q 10</td><td>What is working capital? Is there any difference in concept of gross working capital and net working capital? Discuss in details.</td><td>10</td><td>CO4</td></tr>
<tr><td>Q 11</td><td>A Company is considering an investment proposal to install a new machine. The project will cost Rs 50000 and will have life and no salvage value. Tax rate is 50 % , the company follows SLM . The net income before depreciation and tax is as follows
<table>
<tr><td>Year</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>EBDT</td><td>10000</td><td>11000</td><td>14000</td><td>15000</td><td>25000</td></tr>
<tr><td>DF</td><td>0.909</td><td>0.826</td><td>0.751</td><td>0.683</td><td>0.621</td></tr>
</table>
Evaluate the project using
PBP , ARR , NPV @ 10 % , PI @ 10 %</td><td>20</td><td>CO2</td></tr>
<tr><td>Q 12</td><td>XYZ sells goods on a gross profit of 25 % depreciation are taken into account as a part of cost production. The following are the annual figures given to you
<table>
<tr><th>Particulars</th><th>Amount (Rs)</th></tr>
<tr><td>Sales (2 Month’s Credit)</td><td>18.00 Lacs</td></tr>
<tr><td>Materials Consumed (1 Month’s Credit)</td><td>4.50 Lacs</td></tr>
<tr><td>Wages Paid (1 Month’s Lag in payment)</td><td>3.60 Lacs</td></tr>
<tr><td>Cash Manufacturing Expense(1 Month’s Lag in payment)</td><td>4.80 Lacs</td></tr>
<tr><td>Administration Expense (1 Month’s Lag in payment)</td><td>1.20 Lacs</td></tr>
<tr><td>Sales Promotion Expense(Paid Quarterly in Advance)</td><td>0.60 Lacs</td></tr>
<tr><td>Income Tax Payable in 4 Inst of which 1 lies in the next year</td><td>1.50 Lacs</td></tr>
</table>
The company keeps 1 Month’s Stock of both raw materials and finished goods. It also keeps Rs 1 Lac in Cash. You are required to estimate the Working capital Requirements of the company on cash cost basis assuming 10 % safety margin.</td><td>20</td><td>CO4</td></tr>
</table>

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UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, December 2018

Course: Fundamentals of Investment Management (Set-2)
Semester: V
Programme: B.COM. LLB (Hons) Taxation Laws 2016
Time: 03 hrs. **Max. Marks: 100**
Instructions: Attempt all the Questions

SECTION A

S. No.		**Marks**	**CO**
Q 1	Compare redeemable and non-redeemable preference shares.	**2**	**CO3**
Q 2	Rationalize time value concept of money.	**2**	**CO2**
Q 3	“Cost of Retained earnings is same as cost of equity “Comment.	**2**	**CO3**
Q 4	What is Working Capital Management?	**2**	**CO4**
Q 5	How do we calculate bond intrinsic value?	**2**	**CO3**

SECTION B

Q 6	What are components of Capital? Discuss in details about the individual components of capital?	**10**	**CO4**
Q 7	XYZ Company supplied following information and requested you to compute cost of Capital based on book value and the market value	**10**	**CO3**

Source of Finance	**Book Value (Rs)**	**Market Value (Rs)**	**After Tax Cost (%)**
Equity Capital	10.00 Lacs	15.00 Lacs	12
Long Term Debt	8.00 Lacs	7.50 Lacs	7
Short Term Debt	2.00 Lacs	2.00 Lacs	4
Total	20.00 lacs	24.50 Lacs	

SECTION-C

Q 8	Explain the problems faced in determining the WACC? How is it relevant to Capital budgeting decision?	**10**	**CO3**
Q 9	Sen acquired at a par, a bond for Rs 1000 that offered a 15 % coupon rate. At the time of purchase, the bond had four years to maturity. Assuming annual interest payments, Calculate Sen’s actual yield to maturity if all the interest payments were	**10**	**CO3**

invested in an investment earnings 18% per year. What would Sen's actual yield to maturity be if all interest payments were spent immediately on receipt?

SECTION-D

Q 10 There is nothing like optimum capital structure for a firm. Critically evaluate the statement.

10 **CO4**

Q 11 ABC Limited has under consideration mutually exclusive proposals for the purchase of new equipment :

Particulars	Machine X	Machine Y
Net Cash Outlay	1,00,000	75,000
Salvage value	Nil	Nil
Life(Years)	5	5
EBDT (Rs)	Rs.	Rs.
1	25000	18000
2	30000	20000
3	35000	22000
4	25000	20000
5	20000	16000

Year	1	2	3	4	5
DF	0.909	0.826	0.751	0.683	0.621

Assume tax to be 50% and suggest which one is the best alternative.
Calculate: Payback period, ARR, NPV @ 10%, PI @ 10%.

20 **CO2**

Q 12 A proforma cost sheet of R & Co. Ltd, provides the following information. You are required to estimate the working capital needed to finance a level of activity of 52000 units of production.

Particulars	Amount (per unit)
Raw Material	40
Direct Labour	15
Overheads (excluding depreciation)	30
Total Cost	85
Profit	30
Selling Price	115

Additional Information: Average raw material in stock : one month ; average materials-in-progress(50 % completion stage) : half a month ; average finished goods in stock : one month.

Credit allowed by suppliers: 1 month ; credit allowed to customers : 2 month ; time lag in payment of wages : 1 and Half weeks ; time lag in payment of overheads expenses : 1 month ; half of the sales is on cash basis . Cash balance is expected to be Rs 12,500. You may assume that production. You may assume that production is

20 **CO4**

	carried on evenly throughout the year , and wages and overhead expenses accrue similary.		