**Roll No: --------------------------**

University of Petroleum & Energy Studies

School of Business

Kandoli Campus, Dehradun

**End Semester Examination – May 2018**

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| Programme Name: **MBA ET/IB** | Semester: II |
| Subject: **Financial Management in Energy Sector/Financial Mgmt** | M. Marks: 100 |
| Subject code: FINC 7014/FINC 70111 | Duration: 3 Hrs |

**Section –A (Objective Type) (20*1=20)**

Select the most appropriate answer from the following: Note – Attempt all questions carrying one mark each.

1 a) EOQ is the quantity that:

i) Total Ordering Cost ii) Total Inventory Cost

iii) Total Interest Cost iv) Safety Stock levels

b) Which of the following is not an element of credit policy?

i) Credit terms ii) Collection policy

iii) Cash discount terms iv) Sales price

c) ABC analysis is used in

i) Inventory Management ii) Receivables Management

iii) Accounting Policies iv) Corporate Governance

d) Baumol model of cash management attempts to:

i) Minimize the holding cost ii) Minimization of transaction cost

iii) Minimization of total cost iv) Minimization of cash balance

e) Objective of financial management under Modern approach

i) Management of Liquidity ii) Maximization of Profit

iii) Maximization of shareholders wealth iv) Management of Fixed assets

f) Which of the following represents the financing decision?

i) Designing optimal capital structure ii) Declaring dividend

iii) Deciding about cash balance iv) None of the above

g) In order to calculate EPS, Profit after Tax and preference dividend is divided by :

i) Market price of equity shares
ii) Number of equity shares
iii) Face value of equity shares
iv) None of the above

h) Walter Model suggests that a firm can always increase the value of the share by:

i) Increasing Dividend
ii) Decreasing Dividend
iii) Constant Dividend
iv) None of the above

i) Time value of money is an important concept in Finance because it takes into accounts:

i) Risk
ii) Time
iii) Compound Interest
iv) All of the above

j) A firm has an EBIT of Rs 50,000. Market value of debt is Rs 80,000 and overall capitalization rate is 20%. Market value of equity under NOI approach is

i) Rs 2,50,000
ii) Rs 1,70,000
iii) Rs 30,000
iv) Rs 1,30,000

k) Present value of a future cash flows will decrease if

i) Discount rate is reduced
ii) Discount rate is decreased
iii) Time period is decreased
iv) All of the above

l) Operating cycle of a firm is decreased by:

i) Increasing credit period to customers'
ii) Increasing stock of raw material
iii) Increasing work in progress period
iv)increasing credit period from suppliers

m) Which is the most expensive source of funds?

i) New Equity Shares
ii) New Preference share
iii) New Debts
iv) Retained earnings

n) Financial leverage measures the relationship between:

i) EBIT and PBT
ii) EBIT and EPS
iii) Sales and PBT
iv) Sales and EPS

o) Which of the following assumes that cash flows from a project are uniform throughout the life of the project?

i) Internal rate of return
ii) Net present value
iii) Profitability index
iv) None of the above

p) What is Economic Order quantity?

i) Cost of an order
ii) Cost of stock

iii) Reorder level | iv) Optimum order size

q) Which of the following is not included in cost of inventory?

i) Purchase cost | ii) Transport in cost

iii) Import duty | iv) Selling costs

s) Which of the following are motives for holding Inventory?

i) Transaction motive | ii) Speculative motive

iii) Precautionary motive | iv) All of the above

t) Receivable management deals with

i) Receipts of raw materials | ii) Debtors collection

iii) Creditors Management | iv) Inventory Management

## SECTION B

**Short Answer Questions. Attempt any four Each question carries 5 mark. (4 x5=20)**

Q 1: "Walter's and Gordon's model is based on the same assumptions. Thus there is no difference between the two models". Do you agree or not? Discuss with reasons.

Q 2: Explain the Baumol's model of cash management.

Q3: "Time Value of money does not exist in the absence of inflation". Do you agree? Give reasons.

Q4: "The payback period is more a method of liquidity rather than profitability". Examine this statement.

Q5: A loan of Rs 50,000 is to be repaid in equal installment of Rs 14,000. The loan carries a 6% p.a. rate of interest. How many payments are required to repay this loan?

## SECTION C

**Attempt any 3 questions. Each question carries 10 marks. (3*10= 30 marks)**

Q5: ABC Ltd. has Equity Share capital of Rs 1,00,000 (face value Rs 10 each). To meet the expenditure of an expansion program the company wishes to raise Rs 50,000 and is having following alternative sources to raise the funds:

Plan A : Issue of Equity Shares of Rs 10 each

Plan B: Issue of 5,000, 12% Preference shares of Rs 10 each

Plan C: Issue of 10% Debentures of Rs 50,000

The company is having present earnings of Rs 40,000 per annum. The tax rate is 50% . You are required to identify the best alternative.

Q6: Discuss the importance of working capital management. What are the determinants of a working capital requirement?

Or

State the relevance and significance of cost of Capital in capital budgeting.

Q7: A company has a capital of Rs 10,00,000 in equity shares of Rs 100 each. The shares are currently quoted at par. The company proposes to pay dividend of Rs 10 per share at the end of current year. The capitalization rate is 12%. What will be the market price of equity share at the end of the year, if the dividend is not declared? and if the dividend is declared?

Q8: The following balances appear in the books of AN Ltd.

| | |
|---|---|
| Equity Share capital of Rs 5 each | Rs 8,00,000 |
| 10% Preference shares of Rs 10 each | Rs 5,00,000 |
| Reserve & Surplus | Rs 6,00,000 |
| 12% Debentures | Rs 10,00,000 |

The company is expected to earn an EBIT of Rs 9,00,000 per annum and the tax rate is 40%. The current market of equity and preference shares are Rs 12.50 and Rs 8 respectively. However the debentures are traded at par. Find out the WACC using book and market value method.

## SECTION D

**Attempt all questions. Each question carries 15 marks. (2*15=30 marks)**

Q1: From the following information prepare a statement showing requirement of working capital:

1. Projected Annual sales 26,000 units
2. Selling price per unit Rs 60
3. Analysis of selling price: Material 40%, labour 30%, overheads 20% and Profit 10%
4. Time lag (on average)

   Raw material in stock 3 weeks

   Production process 4 weeks.

   Credit to debtors 5 weeks

   Credit by suppliers 3 weeks

   Lag in payment of wages and overheads 2 weeks.

   Finished goods are in stock 2 weeks.
5. Cash in hand is expected to be Rs 32,000

Q2: A company is considering two projects. Both require an outlay of Rs 10,000 each and have a life of 5 years. The company's required rate of return is 10% and pays tax at 50%. The project will be depreciated under straight line method of depreciation. The profit before depreciation and tax to be generated by the projects are as follows:

| Year | 1 | 2 | 3 | 4 | 5 |
|---|---|---|---|---|---|
| Project 1 | Rs 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Project 2 | Rs 6,000 | 3,000 | 2,000 | 5,000 | 5,000 |

You are required to calculate:

a) The payback period of each project

b) The Average rate of return of each project

c) NPV and PI of each project

d) IRR of each project