Roll No.__________

University of Petroleum & Energy Studies

School of Business

Kandoli Campus, Dehradun

End Semester Examination – May, 2019

Programme Name: MBA (PM) **Semester II**

Subject: Power Financial Management **M.Marks: 100**

Subject code: FINC 7017 **Duration: 3 Hrs**

Section – A (20 Marks) **(20×1 Marks)**

Each question carry equal marks

Q1. Debt funds are raised in the form of (CO1)

a) Debentures b) bonds c) terms loans d) all of the above

Q2. Maximization of wealth of shareholders is reflected in (CO3)

a) Sales Maximization b) No. of shareholders

c)Market price of equity shares d) SENSEX

Q3. One of the following is not a commonly employed long-term finance in a company form of business: (CO2)

a) Debenture capital b) retained earnings

c) Preferential capital d) bank cash credit

Q4. Degree of Financial Leverage is equal to (CO4)

a. % change in EPS/% change is EBIT
b. % change in EBIT/% change is EPS
c. % change in EPS/% change is PAT
d. % change in PAT/% change is EPS

Q5. One of the following is not a part of money market securities (CO1)

a) Commercial paper b) 5 year public deposit

c) Certificate of deposit d) call money

Q6. CAPM accounts for (CO4)

a) Systematic risk b) Unsystematic risk

c)Price risk d) None

Q7. Time value of money facilitates comparison of cash flows occurring at different time periods by: (CO3)

a) Compounding all cash flows to a common point of time
b) Discounting all cash flows to a common point of time
c) Using either a) or b)
d) Neither a) nor b)

Q8. Capital Budgeting involves (CO2)

a) Short-term investment decisions
b) Long-term investment decisions
c) Neither long term nor short term
d) Financing decisions

Q9. Risk in capital budgeting implies that the decision maker knows………. Of the cash flows (CO4)

a) Variability b) Probability

c)Certainty d) None of the above

Q10. A loan of Rs.5,00,000 is to be repaid in 10 equal annual installments. If the loan carries a rate of interest of 12% p.a (PVIFA – 5.65)., the equated annual installment is (CO3)

a) Rs.75,000 b) Rs 80,000
c) Rs 88496 d) Rs 95964

Q11. Which of the following is not regulated by SEBI? (CO2)

a) Foreign Institutional Investors b) Foreign Direct Investment
c) Mutual Funds d) Depositories

Q12. Permanent Working Capital: (CO4)

a) Includes Fixed Assets b) Is minimum level of current assets
c) Varies with seasonal pattern d) Includes equity capital

Q13. Which of the following have ownership interest in the company? (CO4)

a) Convertible Debentures b) Equity shares
c) Redeemable Debentures d) None of the above

Q 14. Financial Assets include: (CO1)

a) Cash and bank balance b) Debts
c) Equity d) All of the above

Q15. Which of the following is not a spontaneous source of short term funds? (CO3)

a) Trade credit c) Accrued Expenses
b) Provision for dividend d) All of the above

Q 16. The future value of Rs 100 invested now at 10% after 3 years will be (CO4)

a) Rs 133 b) Rs 130
c) Rs 125 d) Rs 118

Q17. Which of the following is true? (CO2)

a) Higher the Beta, lower the risk b) Higher the Beta, higher the risk
c) Risk is constant d) Beta is constant

Q18. Stock beta measures (CO2)

a) EPS b) Debt-Equity Ratio c) Dividend d) Stock volatility

Q19. In CAPM, beta factor measures (CO4)

a) Return of an asset b) Risk of an asset
c) Life of an asset d) capital investment

Q20. IRR of a project is that rate where NPV tends to (CO3)

a) Zero b) More than 1
c) Less than 1 d) 1

Section – B **(4×5 Marks)**

Each question is of 5 marks. Attempt any four

Q1. Discuss the functions of a Chief Finance Officer. (CO4)

Q2. Discuss briefly the features of equity shares as sources of long-term finance. (CO3)

Q3 List the various properties of the degree of operating leverage and the degree of financial Leverage. (CO2)

Q4. Calculate the net present value for project X which initially costs Rs. 2500 and generates year-end cash inflows of Rs 900, Rs. 800, Rs. 700, Rs. 600 and Rs. 500 in one through five years. The cost of capital is assumed to be 10 %. (CO1)

Q5. A bond of face value Rs 1000 was issued five years ago at a coupon rate of 10%.The bond had a maturity period of 10 years and as of today, therefore, 5 more years are left for final repayment at par. If the current market interest rate is 14%, what will be the present value of the bond? (CO4)

Section – C **(10×3 Marks)**

Each question is of 10 marks. Attempt any 3

Q1. Anurag Limited borrows Rs.2, 000,000 at an interest rate of 12 percent. The loan is to be repaid in 5 equal annual instalments payable at the end of each of the next 5 years. Prepare the loan amortization schedule (CO3)

Q2. What is factoring? How is it different from bill discounting? What are the different services offered by the factor to their clients. (CO2)

Q3.Cash Enterprises Ltd has borrowed from the market by issue of debentures with the coupon rate of 10.50%. it is a profitable enterprise paying 36% tax. (CO1)

a) What is the cost of debt if it sells (i) at par (ii) at 5% premium (iii) at 5% discount to the face value

b) If instead of debt, the firm had issued a preference share with the promised dividend of 10.5%. What would be the cost of preference share when it sells (i) at pat (ii) at 5% premium (iii) at 5% discount to the face value.

Q4. What is foreign exchange market? Who are the participants of foreign exchange market? (CO4)

Section – D **(15×2 Marks)**

Each question is of 15 marks. Attempt any two

Q1. What do you think are the determinants of the dividend policy of corporate enterprises? Also, explain the terms bonus shares and share splits. What is their rationale? (CO2)

Q2 Rajveer Tool, a large machine shop, is considering replacing one of its lathes with either of two new lathes- lathe A or Lathe B. Lathe A is a highly automated, computer-controlled lathe; lathe B is a less expensive lathe that uses standard technology. To analyze these alternatives, Jackson, a financial analyst, prepared estimates of the initial investment and incremental (relevant) cash inflows associated with each lathe. These are shown in the following table.

	Lathe A	Lathe B
Initial investment	Rs. 660,000	Rs. 360,000
Year	Cash Inflows	
1	Rs 128,000	Rs 88,000
2	Rs 182,000	Rs 120,000
3	Rs 166,000	Rs 96,000
4	Rs 168,000	Rs 86,000
5	Rs 450,000	Rs 207,000

Note that Jackson plans to analyze both lathes over a 5-year period. At the end of that time, the lathes would be sold, thus accounting for the large fifth-year cash inflows. (CO4)

Cost of Capital is 12%.

i)Use the payback period to assess the acceptability and relative ranking of each lathe.
ii) Calculate the NPV on the given cost of capital.
iii) Evaluate both the projects on the basis of IRR method.

Q3. What is Venture capital? Discuss its features and also explain the process of appraisal for venture funding. (CO3)

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Of the cash flows

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b) Rs.75,000 b) Rs 80,000
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b) Trade credit c) Accrued Expenses
e) Provision for dividend d) All of the above

Q 20. The future value of Rs 100 invested now at 10% after 3 years will be (CO4)

b) Rs 133 b) Rs 130
f) Rs 125 d) Rs 118

<u>Section – B</u> (4×5 Marks)

Each question is of 5 marks. Attempt any four

Q1.At the time of his retirement, Rahul is given a choice between two alternatives: (a) an annual pension of Rs120,000 as long as he lives, and (b) a lump sum amount of Rs.1,000,000. If Rahul expects to live for 20 years and the interest rate is expected to be 10 percent throughout , which option appears more attractive. (CO2)

Q2. A bond of face value Rs 1000 was issued five years ago at a coupon rate of 10%.The bond had a maturity period of 10 years and as of today, therefore, 5 more years are left for final repayment at par. If the current market interest rate is 14%, what will be the present value of the bond? (CO4)

Q3. Discuss briefly the features of equity shares as sources of long-term finance. (CO3)

Q4 "The profit maximization is not an operationally feasible criterion". Do you agree? (CO2)

Q5. Discuss the functions of a Chief Finance Officer. (CO4)

<u>Section – C</u> (10×3 Marks)

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Q1. What do you think are the determinants of the dividend policy of corporate enterprises? Also, explain the terms bonus shares and share splits. What is their rationale? (CO2)

Q3. What is Venture capital? Discuss its features and also explain the process of appraisal for venture funding. (CO3)

Q1. Shyam Limited borrows Rs.1,000,000 at an interest rate of 12 percent. The loan is to be repaid in 4 equal annual instalments payable at the end of each of the next 4 years. Prepare the loan amortization schedule (CO3)

Q3.Calvin Enterprises Ltd has borrowed from the market by issue of debentures with the coupon rate of 10.00%. it is a profitable enterprise paying 30% tax. (CO1)

c) What is the cost of debt if it sells (i) at par (ii) at 5% premium (iii) at 5% discount to the face value

d) If instead of debt, the firm had issued a preference share with the promised dividend of 10.0%. What would be the cost of preference share when it sells (i) at pat (ii) at 5% premium (iii) at 5% discount to the face value.

Section – D **(15×2 Marks)**

Each question is of 15 marks. Attempt any two

Q1. What is factoring? How is it different from bill discounting? What are the different services offered by the factor to their clients. (CO1)

Q2. What is foreign exchange market? Who are the participants of foreign exchange market? (CO4)

Q3 Ranveer Tool, a large machine shop, is considering replacing one of its lathes with either of two new lathes- lathe A or Lathe B. Lathe A is a highly automated, computer-controlled lathe; lathe B is a less expensive lathe that uses standard technology. To analyze these alternatives, Jackson, a financial analyst, prepared estimates of the initial investment and incremental (relevant) cash inflows associated with each lathe. These are shown in the following table.

	Lathe A	Lathe B
Initial investment	Rs. 760,000	Rs. 380,000
Year	Cash Inflows	
1	Rs 138,000	Rs 98,000
2	Rs 182,000	Rs 120,000
3	Rs 166,000	Rs 96,000
4	Rs 178,000	Rs 84,000
5	Rs 450,000	Rs 207,000

Note that Jackson plans to analyze both lathes over a 5-year period. At the end of that time, the lathes would be sold, thus accounting for the large fifth-year cash inflows. (CO2)

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