College of Management & Economics Studies

"UNIVERSITY OF PETROLEUM & ENERGY STUDIES"

Examination : End Semester Examination May 2017

Programme & Branch:	**B BA – Core**	**Semester**	**: II**
Course Code :	**BBCF 132**	**Duration**	**: 3 Hrs**
Course Title :	**Financial Management**	**Max. Marks**	**: 100**

Structure of the question paper and allocation of the marks is given below.

Note: All Sections are compulsory

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

Multiple Choice Questions

Q 1: Cost of capital refers to:

a) Flotation cost b) Dividend c) Required rate of return d) None of above

Q 2: Degree of Financial Leverage is equal to

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

Q3: The Equity capitalization rate is 15% and cost of debenture is 10% . Debt & Equity are in the Equal proportion of Rs.2,00,000 each. The over all cost of capital would be

a. 12%
b. 13%
c. 13.5%
d. 12.5%

Q4: Find the present value of an annuity of Rs 12000 per year for 10 years if the interest rate is 9 per cent.

a. Rs 65000
b. Rs. 77016
c. Rs 75000
d. Rs.73000

Q 5: Equity shares of TH ltd. are quoted in the market at Rs.17.00. The dividend expected a year hence is Rs.1.00. The expected rate of dividend growth is 8%. The cost of equity capital to the company is:

a. 13.88%
b. 12.88%
c. 11.97%
d. 10.45%

Q 6: In case of conflict in ranking, __________ method provides better results than NPV.

a. ARR b. IRR c. Payback Period d. Discounted Payback period.

Differentiate the Following:

Q7: Kd and Ke

Q 8: NI and NOI

Q 9: Walter and Gordan Model of Dividend Policy

Q 10: Profitability Index and IRR

Section B

Short Answer Questions **(4*5=20)**

Q 1: What do you mean by Capital Structure? What are the various factors effecting capital structure?

Q 2: (i) Mahesh deposits Rs. 2,00,000 in a bank account which pays 10% interest. How much can be withdraw annually for a period of 15 years

(ii) How Future Value of Annuity is calculated?

Q3: Calculate the Net Present value (NPV) for the project X with initial outlay of. 2500. The Project has following cash inflows:

Years	Cash Inflows (Rs.)
1	900
2	800
3	700
4	600
5	500

Cost of Capital is taken to be 10%

Q4 What are the factors considered while determining the need of working capital?

Section C

Descriptive Type Questions **(3*10=30)**

Attempt any 3 questions

Q5: Assam Petro Ltd. Issues 40,000 71/2% Preference Shares of Rs 100 each redeemable after 6 years at a premium of 5%. The cost of issue is a Rs 2.50 per share. Calculate the cost of preference capital.

Q 6 X Ltd issues 2,00,000, 8% redeemable debentures of Rs 100 each at Rs 96. Underwriting commission was paid @ 2.5 % brokerage @0.5% of **issue price.** Other expenses of the issue amounted to to Rs 50,000. The debentures after redeemable after 10 years. You are required to calculate:

i) Before tax cost of debt
ii) After tax cost of debt assuming the tax rate @ 40%

Q 7: Explain the assumptions and implications of the Net Income approach? Illustrate your answer with diagrams and suitable example.

Q 8: How is traditional approach different from Net Operating Income approach? Illustrate your answer with diagrams and suitable example.

Section D

Analytical/Case Study **(1*30=30)**

Q 8: As a finance manager of an engineering company you are required to compute the weighted average cost of capital of the company using book value weights and market value weights. Company's present capital structure is:

Equity Share(RS 10 per Share)	30,00,000
10% Preference Share(RS 100 per share)	4,00,000
12% Debentures(Rs 100 per Debenture)	14,00,000

All the securities are traded in the security market. Their recent prices are: Debenture Rs 110 per debenture, Preference Shares Rs 115 per share and Equity Share Rs 40 per share.

Anticipated external financing opportunities are:

i) New Rs 100 debentures can be sold at par at 9% coupon rate, redeemable at 10% premium after 5 years. Flotation cost would be 2%
ii) New Rs 100 preference share carrying 8% dividend can be sold at par, redeemable at a premium of 5% after 10 years. Flotation cost would be Rs 3 per share.
iii) New Rs 10 Equity Shares can be sold at Rs 35. Flotation cost would be 2% of the issue price. Expected dividend on equity shares is 20%, anticipated growth rate on dividends is 8% Corporate Tax Rate is 40%