Name: **Enrolment No:**	

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, May 2019

Course: Financial Management **Semester: II**
Programme: BBA (OG) **Course Code: FINC1002**
Time: 03 Hours **Max. Marks: 100**
Instructions: Attempt all questions

SECTION A

Q.1.	Attempt all questions. Each questions carries 2 marks. **Total marks 20**	**Marks**	**CO**
1	Financial structure refers to i) All financial resources ii) Short term funds iii) Long term funds iv) None of these	**2**	**CO1**
2	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	**2**	**CO2**
3	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	**2**	**CO1**
4	Cost of Capital refers to: i) Flotation cost ii) Dividend iii) Required rate of return iv) None of the above	**2**	**CO2**
5	Which of the following has the highest cost of capital? i) Equity share capital ii) Preference share capital iii) Debentures iv) None of the above	**2**	**CO2**
6	Cost of issuing new shares to the public is known as i) Cost of Equity ii) Cost of capital iii) Flotation cost iv) None of these	**2**	**CO1**
7	Which of the following are two basic concepts of financial management? i) Costs and expenses ii) Risk and return iii) Debit and credit iv) Receipts and payments	**2**	**CO1**
8	In order to calculate EPS Profit after tax and preference dividend is divided by i) MP of Equity Shares ii) Face Value of Equity Shares iii) Number of Equity Shares iv) None of these	**2**	**CO3**
9	CAPM stands for (i) Capital Asset Pricing Model (ii) Current Asset Pricing Model (iii) Capital Asset Predictor Model (iv) Current Asset Predictor Model	**2**	**CO3**
10	Combined leverage is obtained from OL and FL by their i) Addition ii) Substraction iii) Multiplication iv) None of these	**2**	**CO2**

SECTION B

Q2	Attempt any four questions. Each questions carries 5 marks. **Total marks 20**	**Marks**	**CO**
1	Discuss the factors affecting requirement of working capital	**5**	**CO1**
2	Discuss the Gordon Model of Dividen policy	**5**	**CO3**
3	Compare Net Income and Net Operating Income Approach.	**5**	**CO1**
4	Discuss Traditional and Modern Approach of Financial Management.	**5**	**CO4**
5	Discuss the Gross and Net working Capital.	**5**	**CO1**

<table>
<tr><td colspan="4">SECTION-C</td></tr>
<tr><td>Q3</td><td>Attempt any three questions. Each questions carries 10 marks. Total marks 30</td><td>Marks</td><td>CO</td></tr>
<tr><td>1</td><td>The expected annual net operating income of a company is Rs 20,00,000. The company has Rs 50,00,000, 10% Debenture. The overall cost of capital is 12.5%. Calculate the Value of the firm and the cost of equity according to Net Operating Income Approach.</td><td>10</td><td>CO4</td></tr>
<tr><td>2</td><td>The earning per share of a company is Rs 20 per share. It has rate of return of 15% and cost of capital is 12.5% . If Walter model is used i) What should be the optimum payout ratio? ii) What would be the price of the share at this payout? iii) What would be the market price of share when payout ratio is 80%.</td><td>10</td><td>CO2</td></tr>
<tr><td>3</td><td>A firm has sales of Rs 20,00,000, Variable cost Rs 14,00,000 and Fixed Cost Rs 4,00,000 (Inclusive of Interest of Rs 50,000). Calculate (i) Operating Leverage, Financial Leverage and Combined Leverage (ii) if the firm double its EBIT how much rise in sales would be needed on a percentage basis?</td><td>10</td><td>CO3</td></tr>
<tr><td>4</td><td>Discuss the relevance and significance of the cost of capital in capital budgeting? How does the cost of capital enter the capital budgeting process?</td><td>10</td><td>CO4</td></tr>
<tr><td colspan="4">SECTION-D</td></tr>
<tr><td>Q4</td><td>Attempt both the questions. Total marks 30</td><td>Marks</td><td>CO</td></tr>
<tr><td>1</td><td>The capital structure of Adamus Ltd. in book value terms is as follows:
<table>
<tr><td></td><td>Amount</td></tr>
<tr><td>Equity Share Capital (10,000 Shares of Rs 10 each)</td><td>1,00,000</td></tr>
<tr><td>11% Preference Share Capital (100 shares of Rs 100 each)</td><td>10,000</td></tr>
<tr><td>Retained earnings</td><td>1,20,000</td></tr>
<tr><td>13.5% Debentures (500 debentures of Rs 100 each)</td><td>50,000</td></tr>
<tr><td></td><td>2,80,000</td></tr>
</table>
The expected dividend per share is Rs 1.50 and the dividend per share is expected to grow at a rate of 7 percent forever. The market price of share is Rs 20. Preference share are redeemable after 10 years at par are currently selling at Rs 75 per share. Debentures are redeemable after 6 years at par are currently selling at Rs 80 per debenture. The tax rate for the company is 50 percent. Calculate the weighted average cost of capital using book value and market value method.</td><td>20</td><td>CO4</td></tr>
<tr><td>2</td><td>A firm is considering implementation of a project costing Rs.10,00,000. The current market price of each share is Rs. 50. It has got the following three financing plans available:
Plan A: - Issue of 20,000 shares to raise the entire financing of Rs. 10,00,000
Plan B: - Issue of 10,000 shares and arrange a debt at 10% of Rs. 5,00,000.
Plan C: - Issue 10,000 shares as equity, Issue preferred shares at 8% for Rs. 3,00,000 and arrange a debt for the remaining Rs. 2,00,000. The firm expects a return on assets of 20% (Estimated EBIT of Rs. 2,00,000). It attracts tax @ 30% on its profits. Calculate EPS and select the best alternative.</td><td>10</td><td>CO2</td></tr>
</table>

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SECTION A

Q.1.	Attempt all questions. Each questions carries 2 marks. **Total marks 20**	**Marks**	**CO**
1	Operating Leverage helps in analysis of i) Business Risk ii) Financial Risk iii) Credit Risk iv) None of these	**2**	**CO1**
2	Which of these represents the finanacing decision? i) Designing optimal capital structure ii) Declaring Dividend iii) Paying interest on loan iv) None of these	**2**	**CO2**
3	Discounting technique is used to find out i) Terminal Value ii) Compund Value iii) Present Value iv) Future Value	**2**	**CO1**
4	Cost of Capital refers to: i) Flotation cost ii) Dividend iii) Required rate of return iv) None of the above	**2**	**CO2**
5	Which of the following cost of capital require tax adjustment? i) Cost Equity share capital ii) Cost of Preference share capital iii) Cost of Debentures iv) Cost of Retained earnings	**2**	**CO2**
6	Cost of issuing new shares to the public is known as i) Cost of Equity ii) Cost of capital iii) Flotation cost iv) None of these	**2**	**CO1**
7	Which of the following are two basic concepts of financial management? i) Costs and expenses ii) Risk and return iii) Debit and credit iv) Receipts and payments	**2**	**CO1**
8	If a firm has Rate of Return on Investment > Cost of Equity, Walter Model suggests i) 0% Payout ii) 100% Payout iii) 50% Payout iv) 25% Payout	**2**	**CO3**
9	CAPM stands for (i) Capital Asset Pricing Model (ii) Current Asset Pricing Model (iii) Capital Asset Predictor Model (iv) Current Asset Predictor Model	**2**	**CO3**
10	In order to calculate EPS Profit after tax and preference dividend is divided by i) MP of Equity Shares ii) Face Value of Equity Shares iii) Number of Equity Shares iv) None of these	**2**	**CO2**

SECTION B

Q2	Attempt any four questions. Each questions carries 5 marks. **Total marks 20**	**Marks**	**CO**
1	Discuss MM Approach of Capital Structure theories.	**5**	**CO1**
2	What is Cost of Debentures and discuss its types?	**5**	**CO3**
3	Explain the concept of Leverage and different types of Leverage.	**5**	**CO1**
4	Discuss Key decision taken by Financial Manager in an organization.	**5**	**CO4**
5	Discuss Walter Model of Divdend Policy.	**5**	**CO1**

SECTION-C

Q3	Attempt any three questions. Each questions carries 10 marks. **Total marks 30**	**Marks**	**CO**
1	The expected EBIT of a company is Rs 2,00,000. The company has Rs 5,00,000 Debenture carrying interest rate of 6%. The cost of equity capital is 10%. Calculate i) the Value of the firm and the overall cost of capital according to Net Income Approach. ii) if the firm increases debt by Rs 2,00,000 calculate the revised Value of firm.	**10**	**CO4**
2	The earning per share of a company is Rs 10 per share. It has rate of return of 18% and cost of capital is 12% . If Gordon model, i) What would be the market price of share when payout ratio is 50%, 75% and 100%.	**10**	**CO2**
3	The capital structure of Company consists of ordinary shares of Rs 10,00,000 (shares of Rs 100 each) and 10% Debentures of Rs 10,00,000. The selling price is Rs 10 per unit, variable cost Rs 6 per unit and fixed cost is Rs 2,00,000. The tax rate is 30%. The sales level is expected to increase from 1,00,000 units to 1,20,000 units. Calculate the percentage increase in EPS Operating Leverage and Financial Leverage at 1,00,000 units and 1,50,000 units	**10**	**CO3**
4	What are the determinants and the importance of working capital for a manufacturing firm? What shall be the repercussions if a firm has: (i) Paucity of working capital. (ii) Excess working capital.	**10**	**CO4**

SECTION-D

<table>
<tr><td>Q4</td><td>Attempt both the questions. Total marks 30</td><td>Marks</td><td>CO</td></tr>
<tr><td>1</td><td>XYZ Ltd has forecast its total fund requirement for the coming year as follows:
<table>
<tr><td>Month</td><td>Amount</td><td>Month</td><td>Amount</td></tr>
<tr><td>January</td><td>30,00,000</td><td>July</td><td>2,00,00,0000</td></tr>
<tr><td>February</td><td>30,00,000</td><td>August</td><td>1,80,00,000</td></tr>
<tr><td>March</td><td>40,00,000</td><td>September</td><td>1,10,00,000</td></tr>
<tr><td>April</td><td>60,00,000</td><td>October</td><td>70,00,000</td></tr>
<tr><td>May</td><td>1,00,00,000</td><td>November</td><td>40,00,000</td></tr>
<tr><td>June</td><td>1,50,00,000</td><td>December</td><td>20,00,000</td></tr>
</table>
The firm’s cost of short term and long term financing is expected to be 10% and 12% respectively. Calculate cost of financing Using Hedging Approach, Conservative Approach and Trade off Approach.</td><td>20</td><td>CO4</td></tr>
<tr><td>2</td><td>A Ltd has a share capital of Rs 1,00,000 divided into shares of Rs 10 each. It has a major expansion program requiring an investment of Rs 4,00,000. The management is considering following two financing plans:
Plan A: - Issue of 15% loans of Rs 2,00,000 and Issue of 2,000 equity shares of Rs 100 each.
Plan B: - Issue of 4,000 equity shares of Rs. 100 each.
The company has EBIT of Rs 1,20,000. Tax rate is 40%.
Calculate EPS and select the best financing plan.</td><td>10</td><td>CO2</td></tr>
</table>