

Name:
Enrolment No:



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

Course: FINANCIAL MANAGEMENT
Programme: BBA (AIS+CORE+FAS)
Time: 03 Hours

Semester: II
Course Code: FINC1002
Max. Marks: 100

Instructions: Attempt all questions

SECTION A

Q.1.		Marks	CO
	<p>1. If the profitability index of a project is 1.23, it means that: a) Project would be selected b) project would be rejected</p> <p>2. The irrelevancy theory of dividend was supported by: a) Modigliani-Miller b) Walter c) Gordon d) Fama</p> <p>3. The major defect in the MM model were: a) Ignored risk b) Ignored tax c) Assumption of perfect market conditions</p> <p>4. Which one of the following is not apart of capital structure? a) Current assets b) Equity shares c) Debentures d) Retained Earnings</p> <p>5. Financial management refers to: a) Management of Current Assets c) Management of all assets b) Financial Decision Making d) Management of Liabilities</p> <p>6. Discounting technique is used to find out a) Terminal Value b) Compounded Value c) Present Value d) Future Value</p> <p>7. Which one of the following is the most common form of dividend payment? a) Cash dividend b) Stock splits c) Bonus issue d) Stock dividend</p> <p>8. The major defect in the MM model were: a) Ignored risk b) Ignored tax c) Assumption of perfect market conditions</p> <p>9. Which one of the following is not apart of capital structure? a) Current assets b) Equity shares c) Debentures d) Retained Earnings</p> <p>10. 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%</p>	<p>2 X 10 = 20</p>	<p>1 & 2</p>

SECTION B

		Marks	CO
Q.2.	Retain earnings are free of cost. Do you agree?	5	3
Q.3.	Why there is a need for working capital?	5	2

Q.4.	Compute k_d from the following information: 10 years 9% Rs 1000 per bond sold at Rs 960. Tax rate is 30%. Mr. X invests Rs 30,000 each year for 4 years.	5	2
Q.5.	Calculate the value of investment at the end of 4 th year, given that the interest is provided at the rate of 10% compounded annually and investments are made: 1. At the end of each year 2. At the beginning of each year	5	1
SECTION-C			
		Marks	CO
Q.6.	Identify the principal motives for holding cash and near cash assets. Explain the purpose of each motive. OR Explain and compare the NI approach and NOI approach of capital structure and firm valuation.	15	3
Q.7.	X Ltd. Is planning to raise Rs 2 lakhs for which the following financial plans are outlined: Plan A: 100% Equity Plan B: 50 % each of equity & debt Plan C: 50% each of equity & preference k_d & k_p is estimated to be 8% and the equity shares of face value of Rs 10 each will be issued at a premium of Rs 10 each. The expected EBIT of the firm is Rs 80,000 and the applicable tax rate is 50%. Find out, for each plan: 1. EPS (5 marks) 2. Indifference level of EBIT between plan A & B and plan A & C (10 marks)	15	3
SECTION-D			
Q.8.	X ltd sells its products on a gross profit of 20% on sales. Sales (3 months credit) Rs 40,00,000 Raw material Rs 12,00,000 Wages (15 days arrears) Rs 9,60,000 Manufacturing expenses (1 month arrear) Rs 12,00,000 Administration expenses (1 month arrear) Rs 4,80,000 Sales promotion (payable half yearly advance) Rs 2,00,000 Company enjoys 1 month credit from suppliers of raw material and maintain 2 month stock of raw material and one & a half month for finished goods. The company maintain a cash balance of Rs 1,00,000. Assuming 5% margin, find out working capital requirement on the basis of cost of sales. Also identify the sources of finance to purchase raw material and paying off expenses.	30	2 & 3

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SECTION A

Q.1.		Marks	CO
	<p>1. The activity concerned with the planning, raising, controlling and administering of the funds used in business is known as –</p> <p>(a) Management function (b) Financing functions (c) Administration functions (d) Monitoring functions</p> <p>2. In the calculation of cash earnings:</p> <p>a) Depreciation should be added to profit before tax b) Depreciation should be added to profit after tax c) Depreciation should neither be added nor subtracted from profits. d) None of these</p> <p>3. If operating leverages is 2, the sales increase by 20%, then the increase in income before interest and tax:</p> <p>(a) 40% (b) 10% (c) 18% (d) None of these</p> <p>4. An increase in the networking capital indicates:</p> <p>(a) Increase in funds available. (b) Decrease in funds available. (c) Decrease in capital (d) Decrease in financial soundness.</p> <p>5. Cash budget is based on:</p> <p>(a) Past performance (b) Future estimates (c) Both of the above (d) None of above</p> <p>6. Discounting technique is used to find out</p> <p>a) Terminal Value b) Compounded Value c) Present Value d) Future Value</p> <p>7. Which one of the following is the most common form of dividend payment?</p> <p>a) Cash dividend b) Stock splits c) Bonus issue d) Stock dividend</p> <p>8. The major defect in the MM model were:</p> <p>a) Ignored risk b) Ignored tax c) Assumption of perfect market conditions</p> <p>9. Which one of the following is not apart of capital structure?</p> <p>a) Current assets b) Equity shares c) Debentures d) Retained Earnings</p> <p>10. 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:</p> <p>b) 13.88% b) 12.88% c) 11.97% d) 10.45%</p>	<p>2 X 10 = 20</p>	<p>1 & 2</p>

SECTION B

		Marks	CO												
Q.2.	Profit maximization is a better criterion than wealth maximization. Do you agree?	5	3												
Q.3.	Assuming tax rate at 30%, compute cost of preference shares if 16% preference shares sold at par.	5	2												
Q.4.	Write a detailed note on : <ul style="list-style-type: none"> • Cost of Equity • Cost of Retained Earnings 	5	2												
Q.5.	Calculate the value of investment at the end of 4 th year, given that the interest is provided at the rate of 10% compounded annually and investments are made: <ol style="list-style-type: none"> 3. At the end of each year 4. At the beginning of each year 	5	1												
SECTION-C															
		Marks	CO												
Q.6.	Identify the principal motives for holding cash and near cash assets. Explain the purpose of each motive. <p style="text-align: center;">OR</p> What is meant by JIT? Explain its merit and demerits.	15	3												
Q.7.	Company provided following information to calculate operating cycle: <p>Sales Rs 80,000 COGS Rs 56,000</p> <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th></th> <th>Opening</th> <th>Closing</th> </tr> </thead> <tbody> <tr> <td>Raw material</td> <td>9,000</td> <td>12,000</td> </tr> <tr> <td>Debtors</td> <td>12,000</td> <td>16,000</td> </tr> <tr> <td>Creditors</td> <td>7,000</td> <td>10,000</td> </tr> </tbody> </table>		Opening	Closing	Raw material	9,000	12,000	Debtors	12,000	16,000	Creditors	7,000	10,000	15	3
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Raw material	9,000	12,000													
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SECTION-D															
Q.8.	Following 3 firms have EPS of Rs 18 and their cost of capital is 20%. Rate of return for company X is 30%, for company Y is 20% and company Z is 10%. Which computation explain Walter model: <ol style="list-style-type: none"> 1. $P = \frac{D}{k} + \frac{r(E-D)}{k}$ 2. $P = \frac{E(1-b)}{k_e-br}$ <p>Find out the value of the share price, based on Walter model, for different payout ratios: 0%, 25% and 50%. Interpret the result.</p>	30	2 & 3												