Name: **Enrolment No:**	UPES UNIVERSITY WITH A PURPOSE

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

Course: Financial Management **Semester: II**
Program: BBA (Logistics Management, Foreign Trade, E. Business) **Time: 03 Hours**
Course code: FINC 1002 **Max. Marks: 100**
Instructions: Attempt all questions

SECTION A **(2*10 = 20)**

Q 1		Marks	CO
I	Walter's model suggests for 100% DP ratio when: a) Ke = r b) Ke< r c) Ke> r d) Ke = 0	**2**	**1**
II	Which of the following cost of capital require tax adjustment? a) Cost of equity shares b) Cost of preference shares c) Cost of debentures d) Retained Earnings	**2**	**1**
III	In case the firm is all equity financed, WACC would be equal to a) Cost of debt b) Cost of equity c) neither (a) nor (b) d) None of above	**2**	**1**
IV	Cost of capital refers to: a) Flotation cost b) Dividend c) Required rate of return d) None of above	**2**	**1**

V	Which of the following are two basic concepts of financial management? a) Costs & Expenses b) Risk & Return c) Debit & Credit d) Leverage & Dividend	**2**	**1**
VI	Higher OL is related to the use of higher: a) Debt b) Equity c) Fixed Cost d) Variable cost	**2**	**1**
VII	Debt financing is a cheaper source of finance because of: a) Time value of money b) Rate of interest c) Tax deductibility of interest d) Dividends not payable to lenders	**2**	**1**
VIII	Which is following is incorrect for Net Operating Income approach? a) Ko is constant b) Kd is constant c) Ke is constant d) Kd and Ko is constant	**2**	**1**
IX	Cost of equity share capital is more than cost of debt because: a) Face value of debentures is more than face value of shares b) Equity shares have higher risk than debt c) Equity shares are easily saleable d) All of three above	**2**	**1**
X	What is ignored in principle of Profit Maximization? a) Time value of money b) Risk c) Wealth creation d) All of above	**2**	**1**

	SECTION B	**(5*4 = 20)**	
		Marks	**Co**
Q 2	What do you mean by Operating Leverage? Explain its importance	**5**	**2**
Q 3	Define working capital. Explain gross working capital, net working capital, Permanent working capital and temporary working capital.	**5**	**2**
Q 4	Distinguish between permanent and variable working capital.	**5**	**3**
Q 5	What do you mean by Capital Structure? Explain the factors affecting Capital Structure.	**5**	**2**
	SECTION-C (Any Two)	**(2*15=30)**	
		Marks	**CO**
Q 6	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.	**15**	**3,4**
Q 7	What is Net Income Approach to Capital Structure? Explain with Diagram.	**15**	**3**
Q 8	Explain Walter's Dividend Model? Discuss its assumptions and limitations.	**15**	**3**
	SECTION-D	**(1*30 = 30)**	
Q 9		**Marks**	**CO**
	Let us assume that Company X has to raise Rs. 5,00,000 for its new project. The company must decide to raise it to following manner. ✖ Rs. 1,00,000 by a term loan from IDB & rate of interest is 14%. ✖ Issue of bonds of Rs. 1000 each at coupon rate of 12% p.a. at discount of 3%. The issue exp. comes to Rs. 8,000. The bond are redeemable at par after 6 years. Total amount is Rs. 2,00,000. ✖ Perpetual preference shares @ 14% p.a. & the issue exp. are 5%. The total amount is Rs. 50,000. ✖ Equity Rs. 10 each. The current market price is Rs. 40 current dividend rate is 40% & growth is 12%. The amount is Rs. 1,00.000 ✖ Internal Sources Rs. 50,000. The tax rate is. 40%. Calculate *Weighted Average Cost of Capital* (WACC) of the X Company.	**30**	**3,4**

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SECTION A **(2*10 = 20)**

Q 1		Marks	CO
I	Which is following is incorrect for Net Income Approach? e) Ko is constant f) Kd is constant g) Ke is constant h) None of the above	**2**	**1**
II	Tax adjustment is not required for which of the following. e) Cost of equity shares f) Cost of preference shares g) Cost of debentures h) Both a and b	**2**	**1**
III	In case the firm is all debt financed, WACC would be equal to e) Cost of debt f) Cost of equity g) neither (a) nor (b) h) None of above	**2**	**1**
IV	Cost of capital refers to: e) Flotation cost f) Dividend	**2**	**1**

	g) Required rate of return h) None of above		
V	Which of the following are two basic concepts of financial management? e) Costs & Expenses f) Risk & Return g) Debit & Credit	**2**	**1**
VI	Higher OL is related to the use of higher: e) Debt f) Equity g) Fixed Cost h) Variable cost	**2**	**1**
VII	Debt financing is a cheaper source of finance because of: e) Time value of money f) Rate of interest g) Tax deductibility of interest d) Dividends not payable to lenders	**2**	**1**
VIII	Which is following is incorrect for NOI? i) Ko is constant j) Kd is constant k) Ke is constant l) Kd and Ko is constant	**2**	**1**
IX	Cost of equity share capital is more than cost of debt because: e) Face value of debentures is more than face value of shares f) Equity shares have higher risk than debt g) Equity shares are easily saleable h) All of three above	**2**	**1**
X	What is ignored in principle of Profit Maximization? e) Time value of money f) Risk g) Wealth creation	**2**	**1**

	h) All above		
	SECTION B **(5*4 = 20)**		
		Marks	**Co**
Q 2	What do you mean by Leverage? Explain its importance	**5**	**2**
Q 3	What do you mean by working capital? Explain the factors affecting it.	**5**	**2**
Q 4	Distinguish between permanent and variable working capital.	**5**	**3**
Q 5	What do you mean by Dividend Policy? Explain the factors affecting it.	**5**	**2**
	SECTION-C (Any Two) **(2*15=30)**		
		Marks	**CO**
Q 6	A company makes an issue of 12% bonds for Rs. 1,00,000. The issue exp. Rs. 6,000 while the issue is made at discount of 2%. The bond will be redeemed after 5 year at a premium of 5%. Find out the after-tax cost of Capital if the rate of tax is 30%.	**15**	**3,4**
Q 7	What is Net Operating Income Approach to Capital Structure? Explain with Diagram.	**15**	**3**
Q 8	Explain Gordons's Dividend Model? Discuss its assumptions and limitations.	**15**	**3**
	SECTION-D **(1*30 = 30)**		
Q 9		**Marks**	**CO**
	Let us assume that Company Y has to raise Rs. 10,00,000 for its new project. The company must decide to raise it to following manner. ✖ Rs. 2,00,000 by a term loan from IDB & rate of interest is 14%. ✖ Issue of bonds of Rs. 1000 each at coupon rate of 12% p.a. at discount of 3%. The issue exp. comes to Rs. 8,000. The bond are redeemable at par after 6 years. Total amount is Rs. 4,00,000. ✖ Perpetual preference shares @ 14% p.a. & the issue exp. are 5%. The total amount is Rs. 1,00,000. ✖ Equity Rs. 10 each. The current market price is Rs. 40 current dividend rate is 40% & growth is 12%. The amount is Rs. 2,00.000 ✖ Internal Sources Rs. ,100,000. The tax rate is. 40%. Calculate *Weighted Average Cost of Capital* (WACC) of the X Company.	**30**	**3,4**