University of Petroleum & Energy Studies

School of Business

Kandoli Campus, Dehradun

End Semester Examination--- May, 2018

Programme Name: **BBA (O&G), BBA (E-Comm.)&BBA CORE**	Semester: II
Subject:_Financial Management	M.Marks: 100
Subject code: FINC1002	Duration: 3 Hrs

Note: All sections are compulsory.

Section –A **(10*2)**

Objective type (Kindly write Full Answers)

Q1. 1) Important Financial decisions apart from Investment are:

a) Finance and Operating
b) Dividend and Operating
c) Financing and Working Capital
d) Dividend and Financing

2) A firms return available to shareholders is 15%. The average tax rate of shareholders is 40% and it is expected that 2% is brokerage cost that shareholder will have to pay while leaving their dividends in alternative securities. The cost of Retained Earnings will be:

a) 6.67%
b) 8.82%
c) 7.33%
d) 9.33%

3) A company is making a proposal. Cash outflows of the proposal in year Zero is Rs.50000 and Cash inflow per annum for 5 Years is Rs. 15000. If target rate is 10% is used as an evaluation figure, the NPV of the proposal is:

a) 7200
b) 6800
c) 6850
d) 7800

4) Cost of Capital is mainly a linkage between:

a) Investment & financing decisions
b) Investment & dividend decisions
c) Dividend & financing decisions
d) all of the above

5) X.Ltd. is paying a dividend @ 2/share, Market Price per share is Rs. 12 and its flotation cost are 2% of Market price. The Cost of Equity will be:
a) 12%
b) 14%
c) 16%
d) 17%

6) You can use………….. to ROUGHLY estimate in how many years a given sum of money must earn at a given compound annual interest rate in order to Double that Initial Amount.
a) Rule of 72
b) Rule of 69
c) Rule of 27
d) Both a & b

7) This type of risk is avoidable through proper Diversification:
a) Systematic risk
b) Un systematic risk
c) Both a & b
d) None of the above

8) IRR is that Rate of Return at which NPV is:
a) Zero
b) Equal
c) One
d) None of the above

9) The focal point of Financial Management in a firm is:
a) The number and type of products or services produced by the firm
b) The minimization of the amount of taxes paid by the firm.
c) The creation of value for shareholders.
d) The dollar profits earned by the firm.

10) __________ is concerned with the acquisition, financing, and management of assets with some overall goal in mind.
a) Financial management
b) Profit maximization
c) Agency theory
d) Social responsibility

Section B (Attempt All) **(4*5)**

<u>Short type questions</u>

Q2. Define capital structure. Discuss the factors which influence the planning of capital structure?

Q3. What are the important determinants of Working Capital Management?

Q4. What is the relevance of Time value of money in financial decision making?

Q5. What do you understand by Cost of Capital, describe how to calculate the specific cost of Capital ?

Section C

<u>Long type Numerical Questions.</u> **(10*3)**

Q6. The initial investment outlay for a capital investment project consists of Rs. 100 lakhs for plant And machinery and Rs. 40 lakhs for working capital.
Other details are summarized below :

Output 1 lakh units of output per year for years 1 to 5

Selling price Rs. 120 per unit of output

Variable cost Rs. 60 per unit of output

Fixed overheads (excluding depreciation) Rs. 15 lakhs per year for years 1 to 5

Rate of depreciation on plant and machinery 25% on WDV method

Salvage value of plant and machinery Equal to the WDV at the end of year 5

Applicable tax rate 40%

Time horizon 5 years

Post-tax cut off rate 12%

Required:

Indicate the financial viability of the project by calculating the Net Present Value

Q7 X.Co.Ltd is considering three different plans to fiannce its total project costs of Rs. 100 lacs. These are:

	Plan A	**Plan B**	**Plan C**
Equity(Rs. 100 per share)	50	34	25
8% debentures	50	66	75
Total	100	100	100

Sales for the first three years of operation are estimated at Rs.100 lacs, Rs. 125 lacs and Rs. 150 lacs and a 10% profit before interest and taxes is forecast to be achieved, Corporate taxation to be taken at 50%. Compute earnings per share in each of alternative plans of financing for three years and evaluate the proposals.

Q8. A Co. is considering Two Investment Proposals, to purchase Either **Machine A** or **Machine B**. The following information is as follows:

	Cash Outflows	**Cash Inflow at the end of:** 1	2	3	4	5 (Yr.)
Machine A	25	--	10	15	16	13
Machine B	45	18	17	16	17	10

The cost of capital is **12%**.

As a Finance Manager in the light of following methods, calculate:

1. **Discounted Payback Period**
2. **Net Present Value.**

Advice the company to decide upon which Machine the company should purchase.

- **Note: All inflow & outflow are in Lakhs.**

Section –D

Long type Numerical **(30Marks)**

Q9. Estimate Working capital requirement for Power Trading Corporation ltd.

Raw material per unit	Rs.180
Direct Labour per unit	Rs.130
Overhead per unit	Rs.160
Total cost Per unit	Rs.470
Profit Per unit	Rs. 30
Selling price Per unit	Rs. 500

Level of activity 104000 units

1. Raw material in stock, average for 4 weeks
2. Work in progress average for 2 weeks
3. Finished goods in stock average for 4 weeks
4. Credit allowed by suppliers average for 4 weeks
5. Credit allowed to debtors average for 8 weeks
6. Lag in payments of wages average for 1.5 weeks
7. Cash at bank is expected to be Rs.50000

You may assume that production is carried on evenly throughout the year (52 weeks) and all sales are on **credit basis.**

OR

Q10. Prepare the flexible budget for overheads on the basis of data given below. Ascertain the overheads rates at 50%, 60% and 70% capacity.

Variable Overheads	At 60% capacity Rs.
Indirect Material	6,000
Indirect Labor	18,000
Semi Variable Overheads	
Electricity	
(40% fixed, 60% variable)	30,000
Repairs and Maintenance	
(80% fixed, 20% variable)	3,000
Fixed Overheads:	
Depreciation	16,500
Insurance	4,500
Salaries	15,000
Total Overheads	**93,000**
Estimated Direct labor Hours	1,86,000