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University of Petroleum & Energy Studies

School of Business

Kandoli Campus, Dehradun

End Semester Examination – May 2018

Programme Name: **BBA LM/MM**	Semester: II
Subject: **Financial Management**	M. Marks: 100
Subject code: FINC 1002	Duration: 3 Hrs

Section –A (Objective Type) (20*1=20)

Select the most appropriate answer from the following: Note – Attempt all questions carrying one mark each.

1 a) Focal point in Financial Management:

i) Increasing sales of the firm   ii) Creating shareholders value

iii) Increasing Profit   iv) Increasing Market share

b) Discounting technique is used to find out:

i) Terminal Value   ii) Compunded Value

iii) Present Value   iv) Future Value

c) Capital Budgeting is a part of

i) Investment decision   ii) Liquidity Decision

iii) Marketing Management   iv) Financing decision

d) Baumol model of cash management attempts to:

i) Minimize the holding cost   ii) Minimization of transaction cost

iii) Minimization of total cost   iv) Minimization of cash balance

e) 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

f) In case of risky projects the required rate of return would generally be

i) Higher | ii) Lower

iii) Same as for others | iv) None of the above

g) Cost of capital refers to :

i) Floatation cost | ii) Dividend

iii) Required rate of return | iv) None of the above

h) Relationship between changes in sales and change in operating profit is known as:

i) Financial leverage | ii) Operating Leverage

iii) Net profit ratio | iv) None of the above

i) Time value of money is an important concept in Finance because it takes into accounts:

i) Risk | ii) Time

iii) Compound Interest | iv) All of the above

j) In Net Income approach the Cost of Equity is

i) Constant | ii) Increasing

iii) Decreasing | iv) None of the above

k) Management of working capital implies trade off between:

i) Cost and revenue | ii) Assets and Liabilities

iii) Debtors and Creditors | iv) Liquidity and Profitability

l) Gross working capital is equal to:

i) Total Assets | ii) Total liabilities

iii) Total Current assets | iv) Total Current Liabilities

m) Which is the most expensive source of funds?

i) New Equity Shares | ii) New Preference share

iii) New Debts | iv) Retained earnings

n) Financial leverage measures the relationship between:

i) EBIT and PBT | ii) EBIT and EPS

iii) Sales and PBT | iv) Sales and EPS

o) Which of the following assumes that cash flows from a project are uniform throughout the life of the project?

i) Internal rate of return
ii) Net present value
iii) Profitability index
iv) None of the above

p) Which of the following is a determinant of working capital?

i) Tax policy
ii) Production capacity
iii) Depreciation policy
iv) Production schedule

q) Net Operating cycle is equal to

i) GOC- DP
ii) GOC + DP
iii) RMCP + RCP
iv) RMCP - RCP

s) The transaction motive for holding cash is for

i) Safety Cushion
ii) Daily operation
iii) Purchase of Assets
iv) Payment of Dividends

t) Find out the net operating cycle if Receivable conversion period is 40 days, Deferral period is 30 days and Inventory holding period is 25 days

i) 30 days
ii) 35 days
iii) 25 days
iv) 45 days

SECTION B

Short Answer Questions. Attempt any four Each question carries 5 mark. (4 x5=20)

Q 1: What are the assumptions which underline Gordon's model of dividend effect? Does the dividend policy affect the value of the firm under Gordon model

Q 2: Discuss the credit policy of Receivable management.

Q3: Discuss the functions of a Finance manager.

Q4: Discuss the reasons for decrease in the value of money.

Q5: From the following information, determine the cost of equity capital using the CAPM approach

Required Rate of Return on Risk free security 12%

Required rate of return on market portfolio of investment is 15%

The firm's beta is 1.6

SECTION C

Attempt any 3 questions. Each question carries 10 marks. (3*10= 30 marks)

Q5: A firm is considering alternative proposals to raise fund for expansion program of Rs 4,00,000 and is having following alternative sources to raise the funds:

Plan A : Issue of 15% loan 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

Given that the tax rate is 50% and assuming EBIT of Rs 70,000 and Rs 80,000. You are required to identify the best alternative among the two financial plan.

Q6: Discuss the importance of working capital management. What are the strategies available for financing working capital requirement?

Or

State the relevance and significance of cost of Capital in capital budgeting.

Q7: A company has outstanding of 1,20,000 shares of Rs 20 each. The company hopes to make a profit of Rs 3,50,000 during the current year. The company proposes to pay dividend of Rs 2 per share at the end of current year. The capitalization rate is 15%. What will be the market price of equity share at the end of the year, if the dividend is not declared? and if the dividend is declared? How many new shares must the company issue if the dividend is paid and compare needs Rs 7,40,000 for an approved investment expenditure during the year?

Q8: The following balances appear in the books of AN Ltd.

Equity Share capital	Rs 10,00,000
Share premium	Rs 2,00,000
Reserve & Surplus	Rs 6,00,000
12% Debentures	Rs 4,00,000

An ordinary dividend of Rs 2 per share was declared last year and had just been paid. In the past, ordinary dividends have grown at a rate of 10% per annum. Annual interest has recently paid on the debentures. The ordinary shares are currently quoted at Rs 27.50 and the debentures at 80 %. You are required to estimate the Weighted Average Cost of capital based on market value.

SECTION D

Attempt all questions. Each question carries 15 marks. **(2*15=30 marks)**

Q1: A firm current operating income is Rs 4,00,000. The firm has Rs 10,00,000 of 10% Debt outstanding. Its cost of equity capital is estimated to be 15%.

(i) Determine the current value of the firm using Net Income Approach

(ii) Calculate the firm's overall cost of capital

(iii) The firm is considering to increase to increase a debt of Rs 5,00,000. As a result of increased financial risk the rate of interest is likely to go up to 12% and cost of equity capital to 18%. Calculate the revised value of firm and the the firm's overall cost of capital

Q2: A company is considering two projects. Both require an outlay of Rs 90,000 each and have a life of 3 years. The estimated salvage value is zero. The company's required rate of return is 10%. The project will be depreciated under straight line method of depreciation.

The profit before depreciation and tax to be generated by the projects are as follows:

Year	1	2	3
Project 1	Rs 40,000	50,000	40,000
Project 2	Rs 20,000	70,000	50,000

You are required to calculate:

a) The payback period of each project
b) The Average rate of return of each project
c) NPV and PI of each project
d) IRR of each project