University of Petroleum & Energy Studies
School of Business
Kandoli Campus, Dehradun
End Semester Examination – May, 2018

Programme Name: **BBA AM**		Semester: II
Subject: Financial Management		M.Marks: 100
Subject code: FINC1002		Duration: 2 Hrs

Note: All sections are compulsory.

Section –A **(10*2)**

Objective type

Q1. **Business owned by a single person in unincorporated way is called**

a) Proprietorship
b) Personal business
c) Private Corporation
d) Personal ownership

Q2 **If the Present Value of Cash Inflows are greater than the Present Value of Cash Outflows, the project would be**

a) Accepted
b) Rejected with condition
c) Rejected with approval
d) Rejected

Q3 **Discounting technique is used to find out**
a) Terminal Value b) Compounded Value c) Present Value d) Future Value

Q4 **The return which the company pays on borrowed funds is termed as**
a) Dividend
b) Interest
c) Bonus
d) All of the above

Q5 Cost of Preference Capital can be obtained by

a) $K_P = E – P/2/D – E/100\ (1 - Tax)$

b) $K_P = E – P/2/D + 1/100 \times 100$

c) $K_P = D + 1/2 \times 100$

d) $K_P = D + (M.V. - N.P./n)/(M.V. + N.P./2)$

Q6 If cash inflows are not uniform, the calculation of pay-back period takes a]

a) Common Profit
b) Favorable position
c) Cumulative form
d) All of the above answer c

Q7 Which method of capital budgeting called benefit cash ratio?

a) Pay back period
b) Net present value
c) Pay out period
d) Profitability index number

Q8 **Cost of Capital refers to :**
a) Flotation Cost b) Dividend c) Required Rate of Return d) None of the above

Q9 Capital Employed is

a) Cash+Bank
b) Shareholders fund+Long funds
c) Assets+Cash
d) Bank

Q10 Which is a capital expenditure?

a) Research and Development Project

b) Project Generation
c) Project Expansion
d) All of the above

Section (B) Short Types **(4*5 marks) 20 Marks**

Q1. Explain the concept of Capital structure?
Q2. What are the steps involved in computation of WACC? What factors affect the WACC..
Q3 Explain the concept working capital management?
Q4. What is MM model?

Section (C) 30 Marks (15*2)

Q1 The data relating to two companies are as given below:

	Company A	Company B
Capital	Rs. 6,00,000	Rs. 3,50,000
Debentures	Rs. 4,00,000	Rs. 6,50,000
Output(units)per annum	60,000	15,000
Selling price/unit	Rs. 30	Rs. 250
Fixed costs per annum	Rs. 7,00,000	Rs. 14,00,000
Variable cost per unit	Rs. 10	Rs. 75

You are required to calculate the Operating leverage, Financial leverage and Combined leverage of two companies.

Q2 Explain operating cycle. Based on following numerical results explain what are the reason for prolonged operating cycle. From the following data, compute the duration of the operating cycle for each of the two years and comment on the increase/decrease.

	Rs.,000	Rs.,000
Particulars	Year1	Year2
Stocks		
Raw materials	20	27
Work-in-process	14	18
Finished goods	21	24

Purchases	96	135
Cost of goods sold	140	180
Sales	160	200
Debtors	32	50
Creditors	16	18

Assume 360 days per year for computational purposes.

Section (D) 30 Marks

Q1 A company needs Rs. 5,00,000 for construction of a new plant. The following three financial plans are feasible:

1) The company may issue 50,00,000 ordinary shares at Rs. 10 per share.
2) The company may issue 25,00,000 ordinary shares at Rs. 10 per share and 2,50,000 debentures of Rs. 100 per share bearing 8% rate of interest.
3) The company may issue 25,00,000 ordinary shares at Rs. 10 per share and 2,50,000 preference shares at Rs. 100 per share bearing 8% rate of dividend.

If the company's earnings before interest and taxes are Rs. 10,00,000, Rs. 20,00,000, Rs. 40,00,000, Rs. 60,00,000 and Rs. 1,00,00,000, what are the Earnings per share under each of the three financial plans? Which alternative would you recommend and why? Determine the indifference points between:

- Financial plans (1) and (2) and
- Financial plans (1) and (3).

Assume a corporate tax rate of 35%.