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University of Petroleum & Energy Studies

College of Management & Economics Studies

Bidholi Campus, Dehradun

End Semester Examination – May, 2018

Programme Name: MBA (UI & SC) **Semester II**
Subject: Financial Management in UI & SC **M.Marks: 100**
Subject code: FINC 7015 **Duration: 3 Hrs**

Section – A (20 Marks) **(20 Marks)**

Each question carry equal marks

Q1. Financial management refers to

a) Management of Current Assets
b) Management of all assets
c) Financial Decision Making
d) Management of Liabilities

Q2. Maximization of wealth of shareholders is reflected in

a) Sales Maximization
b) No. of shareholders
c) Market price of equity shares
d) SENSEX

Q3. Gross Working capital is equal to:

a) Total Assets
b) Total Liabilities
c) Total Current Assets
d) Total Current Liabilities

Q4. Equal annual cash flows occurring at the end of each year for certain period are known as:

a) Annuity
b) Perpetuity
c) Annuity Due
d) Deferred Payments

Q5. Discounting technique is used to find out

a) Terminal Value
b) Compounded Value
c) Present Value
d) Future Value

Q6. CAPM accounts for

a) Systematic risk
b) Unsystematic risk
c) Price risk
d) None

Q7. Time value of money facilitates comparison of cash flows occurring at different time periods by:

a) Compounding all cash flows to a common point of time
b) Discounting all cash flows to a common point of time
c) Using either a) or b)
d) Neither a) nor b)

Q8. Capital Budgeting involves

a) Short-term investment decisions
b) Long-term investment decisions
c) Neither long term nor short term
d) Financing decisions

Q9. Risk in capital budgeting implies that the decision maker knows………. Of the cash flows

a) Variability
b) Probability
c) Certainty
d) None of the above

Q10. The viable goal of financial management is

a) Assets maximization
b) Sales maximization
c) Maximization of profits
d) Wealth Maximization

Q11. Operating Cycle of a firm can be shortened by

a) Increasing credit period to customers
b) Increasing stock of raw material
c) Increasing working-in-progress period
d) Increasing credit period from suppliers

Q12. Permanent Working Capital:

a) Includes Fixed Assets
b) Is minimum level of current assets
c) Varies with seasonal pattern
d) Includes equity capital

Q13. Working capital is defined as excess of:

a) Current assets over capital
b) Current liabilities over capital
c) Current Assets over current liabilities
d) Total Assets over Current liabilities

Q 14. Financial Assets include:

a) Cash and bank balance
b) Debts
c) Equity
d) All of the above

Q15. The main reasons for time preference for money include

a) Reinvestment opportunities
b) Uncertainty
c) Inflation
d) All of the above

Q 16. The future value of Rs 100 invested now at 10% after 3 years will be

a) Rs 133
b) Rs 130
c) Rs 125
d) Rs 118

Q17. The present value of Rs 1000 to be received after one year at 8% p.a. is

a) Rs 921
b) Rs 918

c) Rs 926
d) Rs 1080

Q18. Which of the following statements is not a correct explanation of the capital asset pricing model:
a) Beta gives a measure of the extent of market related risks which are non-diversifiable
b) When beta value is 1.0, the investment is considered to be of normal risk
c) The expected return on an investment with a beta value of 2.0 is twice as high as the market rate of return
d) The expected return from an investment with negative beta would be less than the risk-free rate of return.

Q19. Factors determining the working capital needs of a firm include the following except:
a) Location of the firm
b) Nature of business and scale of operation
c) Operating cycle, business cycle, seasonality, growth and expansion
d) Price level changes, taxation, dividend and retention policies

Q20. Net Operating Cycle increases if:
a) More raw materials are purchased
b) Payment to creditors is made earlier
c) Goods are sold in shorter period
d) Both (a) and (b)

Section – B (20 Marks)

Each question carry equal marks. Attempt any four.

Q1. Sadhulal Bhai is borrowing Rs 50000 to buy a low-income group house. If he pays equal instilments for 25 years and 4 percent interest on outstanding balance, what is the amount of installment? What shall be amount of installment if quarterly payments are required to be made?

Q2. From the following particulars of ABC Ltd., calculate operating leverage.

Particulars	Previous year 2009	Current year 2010
Sales revenue	10,00,000	12,50,000
Variable cost	6,00,000	7,50,000
Fixed Cost	2,50,000	2,50,000

Q3. Ram and Shyam combine their savings of Rs 10,000 and 7,000, respectively, and deposit this amount into a saving account that pays 6% per annum interest which is quarterly compounded, what will the account balance be after 3 years.

Q4. A company's bonds have a par value of Rs.1000, mature in 8 years, and carry a coupon rate of 14 percent payable semi-annually. If the appropriate discount rate is 12 percent, what price should the bond command in the market place?

Q5. A portfolio consists of 4 securities, 1, 2, 3, and 4. The proportions of these securities are: $w1=0.3$, $w2=0.2$, $w3=0.2$, and $w4=0.3$. The standard deviations of returns on these securities (in percentage terms) are : $\sigma1=5$, $\sigma2=6$, $\sigma3=12$, and $\sigma4=8$. The correlation coefficients among security returns are: $\rho12=0.2$, $\rho13=0.6$, $\rho14=0.3$, $\rho23=0.4$, $\rho24=0.6$, and $\rho34=0.5$. What is the standard deviation of portfolio return?

Section – C (30 Marks)

Each question carry equal marks. Attempt any three

Q1. Distinguish a) realized return and expected return (b) diversifiable and non-diversifiable return.

Q2.What is foreign exchange market? Who are the participants of foreign exchange market?

Q3. What do you understand by working capital cycle? Discuss the determinants of working capital management.

Q4. Anurag Limited borrows Rs.2,000,000 at an interest rate of 12 percent. The loan is to be repaid in 5 equal annual instalments payable at the end of each of the next 5 years. Prepare the loan amortisation schedule

Section – D (30 Marks)

Each question carry equal marks

Q1. Shell Corporation is considering buying a machine with an initial cost of 150,000 and an economic life of three years. The machine is expected to allow the firm to increase production so that sales revenue will rise by 120,000 per year and operating expenses by 35,000 per year. The firm's marginal tax rate is 40 percent and its cost of capital is 18 percent. The machine will have a zero market value after three years.

If the firm depreciates the machine for tax purposes on a straight-line basis to a zero salvage value over its three year life, what is the incremental operating cash flow for the project? What is the project's NPV?

Q2. Modern Limited has the following book value capital structure:

Equity capital (25 million shares, Rs.10 par)	Rs.250 million
Preference capital, 10 percent (800,000 shares, Rs.100 par)	Rs. 80 million
Retained earnings	Rs.50million
Debentures 14 percent (2,000,000 debentures, Rs.100 par)	Rs.200 million
Term loans, 14 percent	Rs. 220 million
Total	Rs.800 million

The next expected dividend per share is Rs.3.00. The dividend per share is expected to grow at the rate of 10 percent. The market price per share is Rs.260. Preference stock, redeemable after 8 years, is currently selling for Rs.90 per share. Debentures, redeemable after 5 years, are selling for Rs.105 per debenture. The tax rate for the company is 34 percent.

(a) Calculate the average cost of capital using

(i) book value proportions, and (ii) market value proportions