College of Management & Economics Studies

"UNIVERSITY OF PETROLEUM & ENERGY STUDIES"

Examination : End Semester Examination May 2017

Programme & Branch:	**B BA – FT + MM**	**Semester**	**: II**
Course Code :	**BBCF 132**	**Duration**	**: 3 Hrs**
Course Title :	**Financial Management**	**Max. Marks**	**: 100**

Note: All Sections are compulsory

Section –A (Objective Type) **(10*2 Marks Each)**

Multiple Choice Questions

Q 1: A loan of Rs.5,00,000 is to be repaid in 10 equal annual installments. If the loan carries a rate of interest of 12% p.a (PVIFA – 5.65)., the equated annual installment is

a. Rs.75,000
b. Rs.80,000
c. Rs. 88,496
d. Rs. 95964

Q 2: Degree of Financial Leverage is equal to

a. % change in EPS/% change is EBIT
b. % change in EBIT/% change is EPS
c. % change in EPS/% change is PAT
d. % change in PAT/% change is EPS

Q3: The Equity capitalization rate is 15% and cost of debenture is 10% . Debt & Equity are in the Equal proportion of Rs.2,00,000 each. The over all cost of capital would be

a. 12%
b. 13%
c. 13.5%
d. 12.5%

Q4: Find the present value of an annuity of Rs 12000 per year for 10 years if the interest rate is 9 per cent.

a. Rs 65000
b. Rs. 77016
c. Rs 75000
d. Rs.73000

Q 5: Equity shares of TH ltd. are quoted in the market at Rs.17.00. The dividend expected a year hence is Rs.1.00. The expected rate of dividend growth is 8%. The cost of equity capital to the company is:

a. 13.88%
b. 12.88%
c. 11.97%
d. 10.45%

Q 6: In case of conflict in ranking, ___________ method provides better results than NPV.

a. ARR b. IRR c. Payback Period d. Discounted Payback period.

Differentiate the Following:

Q7: Kd and Ke

Q 8: DCL and DOL

Q 9: Walter and Gordan Model of Dividend Policy

Q 10: Profitability Index and IRR

Section B

Short Answer Questions **(4*5)**

Q 1: What do you mean by Capital Structure? What are the various factors effecting capital structure?

Q 2: (i) Mahesh deposits Rs. 2,00,000 in a bank account which pays 10% interest. How much can be withdraw annually for a period of 15 years

(ii) How Future Value of Annuity is calculated?

Q3: Calculate the Net Present value (NPV) for the project X with initial outlay of. 2500. The Project has following cash inflows:

Years	Cash Inflows (Rs.)
1	900
2	800
3	700
4	600
5	500

Cost of Capital is taken to be 10%

Q4 What are the factors considered while determining the need of working capital?

Section C

Descriptive Type Questions **(3*10)**

Attempt any 3 questions

Q5: Gaggle Internet, Inc. is evaluating its cost of capital under alternative financing arrangements. In consultation with investment bankers, Gaggle expects to be able to issue new debt at par with a coupon rate of 8% and to issue new preferred stock with a Rs 2.50 per share dividend at Rs 25 a share. The common stock of Gaggle is currently selling for Rs 20.00 a share. Gaggle expects to pay a dividend of Rs 1.50 per share next year. Market analysts foresee a growth in dividends in Invest stock at a rate of 5% per year. Gaggle' marginal tax rate is 35%. If Gaggle raises capital using 30% debt, 5% preferred stock, and 65% common stock, what is Gaggle's cost of capital?

Q 6 Gaggle Internet, Inc. is looking for expansion. For considering the same proposal, company is looking for funds. Guide the various avenues to raise the same.

Q 7: Valley Products, Inc. is considering two independent investments having the following cash flow streams:

Year	Project A	Project B
0	-Rs 50,000	-Rs 40,000
1	+20,000	+20,000
2	+20,000	+10,000
3	+10,000	+5,000
4	+5,000	+40,000
5	+5,000	+40,000

Valley uses a combination of the net present value approach and the payback approach to evaluate investment alternatives. It requires that all projects have a positive net present value when cash flows are discounted at 10 percent and that all projects have a payback period no longer than 3 years. Which project or projects should the firm accept? Why?

Q 8: Valley Products, Inc. uses about 750000 valves per year and the usage is fairly constant at 62500 per month. The valve costs Rs 10.50 per unit. The carrying cost is estimated to be 20% of average inventory investment on an annual basis. The cost to place an order and process the delivery is 180. It takes 45 days to receive delivery from the date of an order and a safety stock of 32500 valves is desired. You are required to determine:

a. EOQ
b. Frequency of orders
c. EOQ if the valves cost Rs 40.50 each instead of Rs 10.50

Section D
Analytical/Case Study (2*15)

The following statement showing the working capital needs to finance a level of activity of producing 100000 units of output for the year. The cost structure for an organization in the preceding activity level is as follows:

Elements of cost	Amount
Raw Materials	Rs 20
Direct Labors	Rs 5
Overheads	Rs 15
Total Cost	Rs 40
Profit	Rs 10
Selling Price	Rs 50

Additional information:
Raw materials are held in stock on an average for two months
Work in progress (assume 100% completion stage) will aprrox to a month
Finished goods remain in the warehouse on an average for a month
Suppliers of the materials extend a months' credit and debtors are provided two months' credit
Time lag in the payment of the wages and overheads is half month.

Q 9: You are required to prepare the statement showing working capital needs.

Q 10: Also explain operating cycle of an organization.