Name: **Enrolment No:**	UPES UNIVERSITY OF TOMORROW

UPES

End Semester Examination, May 2023

Course: Financial Management **Semester: II**

Program: MBA-ALL(Except OG & PM) **Time : 03 hrs.**

Course Code: FINC 7019 **Max. Marks: 100**

Instructions:

SECTION A

10Qx2M=20Marks

S. No.		**Marks**	**CO**
Q1 (i)	Which is the cheapest source of financing if value maximization is the criteria? A. Equity Share B. Preference Shares C. Debentures D. Retained Earnings	**2**	**CO1**
(ii)	Which technique helps in determining the present value of the future cash flows? A. Compounding B. Annuity C. Discounting D. Perpetuity	**2**	**CO1**

(iii)	Which objective of Financial Management also considers ethical value of business? A. Wealth Maximization B. Profit Maximisation C. Value Maximization D. Market Value Maximisation	**2**	**CO1**
(iv)	Which element provides for tax shield in calculation of cash flows: A. Profits B. Taxes C. Depreciation D. EPS	**2**	**CO1**
(v)	The main economic concept behind cost of retained earnings is: A. Fixed Cost B. Sunk Cost C. Opportunity Cost D. Incremental Cost	**2**	**CO1**
(vi)	The Value of the Firm is determined by: A. Financing Decision B. Dividend Decision C. Investment Decision D. All the above.	**2**	**CO1**
(vii)	If the percentage change in EPS is +60% and the percentage in EBIT is +30 %, the degree of Financial Leverage is: A. 2 B. 5 C. 10 D. 4	**2**	**CO1**
(viii)	MNB ltd. has the operating income of Rs.2,00,000, cost of debt 10% and the outstanding debt is Rs. 10,00,000. If the Equity Capitalization rate is 10%. The value of the firm as per Net Income Approach would be A. Rs. 10,00,000 B. Rs. 8,00,000	**2**	**CO1**

	C. Rs.3,00,000 D. Rs.6,50,000		
(ix)	If the nominal rate of interest is 10% per annum and the compounding is quarterly, the effective rate of interest per annum will be: Rs. 75,000 A. 10.25% B. 10.38% C. 10% D. 10.10%	**2**	**CO1**
(x)	Which method determines the number of years required to recover the initial investment? A. NPV B. Payback period C. Profitability Index D. ARR	**2**	**CO1**
SECTION B **4Qx5M= 20 Marks** **(Attempt all)**			
Q2	Explian different factors affecting working capital requirements?	**5**	**CO2**
Q3	Explain various methods of capital budgeting. Which method in your opinion is the best and why?	**5**	**CO2**
Q4	ABC Ltd is evaluating the purchase of new machinery with a depreciable base of Rs. 1,00,000; expected economic life of 4 years and change in earnings before taxes and depreciation of Rs 45,000 in year I, Rs 30,000 in year II, Rs. 25,000 in year III and Rs. 35,000 in year IV. Assume straight-line depreciation and a 20% tax rate. You are required to compute relevant cash flows.	**5**	**CO2**
Q5	A company has Rs. 2,00,000 as EBIT. It has Rs. 10,00,000, 10% debentures. The equity capitalization rate (Ke) of the company is 12.5%. find out the value of the firm under Net Income Approach.	**5**	**CO2**
SECTION-C **3Qx10M=30 Marks** **(Attempt any Three)**			

<table>
<tr><td>Q6</td><td>How company assess Operating and financial leverage while assessing change in EBIT, Change in Sales, and Change in EPS.</td><td>10</td><td>CO3</td></tr>
<tr><td>Q7</td><td>A firm whose cost of capitals is 10% is considering two mutually exclusive projects X and Y, the details of which are:
<table>
<tr><th></th><th>Year</th><th>Project X</th><th>Project Y</th></tr>
<tr><td>Cost</td><td>0</td><td>Rs. 1,00,000</td><td>Rs. 1,00,000</td></tr>
<tr><td>Cash inflows</td><td>1</td><td>10,000</td><td>50,000</td></tr>
<tr><td></td><td>2</td><td>20,000</td><td>40,000</td></tr>
<tr><td></td><td>3</td><td>30,000</td><td>20,000</td></tr>
<tr><td></td><td>4</td><td>45,000</td><td>10,000</td></tr>
<tr><td></td><td>5</td><td>60,000</td><td>10,000</td></tr>
</table>
Compute the Net Present Value Profitability Index, and Discounted pay back period and ARR.</td><td>10</td><td>CO3</td></tr>
<tr><td>Q8</td><td>Rolta Ltd. has the most recent Balance Sheet (as at 31/12/2008) is as follows:
<table>
<tr><td>Liabilities</td><td>Amount (Rs.)</td><td>Assets</td><td>Amount (Rs.)</td></tr>
<tr><td>Equity Share Capital (Rs. 10 per share)</td><td>3,60,000</td><td>Net Fixed Assets</td><td>9,00,000</td></tr>
<tr><td>10% Long Term Debt</td><td>4,80,000</td><td>Current Assets</td><td>3,00,000</td></tr>
<tr><td>Retained Earnings</td><td>1,20,000</td><td></td><td></td></tr>
<tr><td>Current Liabilities</td><td>2,40,000</td><td></td><td></td></tr>
<tr><td>Total</td><td>12,00,000</td><td></td><td>12,00,000</td></tr>
</table>
The Company’s total assets turnover ratio is 3, its fixed operating costs are Rs. 3,00,000 and the variable operating cost Ratio is 40%. The Income Tax rate is 35 %

Calculate all three types of Degrees of Leverages</td><td>10</td><td>CO3</td></tr>
<tr><td>Q9</td><td>Discuss various capital budgeting techniques and explain each of them and comment which technique is most suited for selection criteria if any contradictory results arises and why?</td><td>10</td><td>CO3</td></tr>
</table>

	SECTION-D **2Qx15M= 30 Marks**		
Q10	**1.** Calculate the Cost of Debenture for each of the following cases (Redeemable Debentures) a) Debentures are sold at par and floatation costs are 7% b) Debentures are sold at 10% premium and flotation costs are 8% c) Debentures are sold at 5 % discount and flotation costs are 9% Coupon Rate of Interest on Debentures is 15% and the face value of Debenture is Rs. 100. Maturity period is 10 Years and Tax rate is 35% **2.** The Company is paying Rs. 70 per share as dividend last year. Growth rate is 10%. Price is Rs. 250 per share. Calculate the Cost of Equity and Price in 1st and 2nd Year using Dividend Approach OR A company needs Rs. 12 Lacs for the installation of a new factory which would yield an annual EBIT of Rs. 2 lacs. The company has the objective of maximizing the EPS. It is considering the possibility of issuing equity shares plus raising a debt of Rs.200000, Rs.600000, Rs. 1000000. The current market price per share is Rs.40 which is expected to drop to Rs.25 per share if the market borrowing were to exceed Rs. 750000. Cost of borrowing is indicated as under: Upto Rs.250000 — 10% p.a Between Rs. 250001 and Rs.625000 — 14%p.a Between Rs.625001 and Rs.1000000 — 16%p.a Assuming tax rate of 50% work out the EPS and the scheme which would meet the objective of the management.	**10** **05**	**CO4**

Q11	While preparing a project report on behalf of a client, the following information pertaining to Client (Melanie Ltd.)is collected. You are required to estimate the net working capital. Add 10%to the computed figure to allow for contingencies. Raw Material: 320 Direct Labour: 120 Overheads: 240 Total Cost: 680 Additional information: - Selling Price — Rs. 400 per unit Level of Activity — 2,08,000 units per annum Raw Material in stock — Average 4 weeks Works – in – Process — Average 2 weeks (Assume 50% completion stage in respect of conversion costs and 100 % completion in respect of materials) Finished goods in stock — Average 4 weeks Credit allowed by suppliers — Average 4 weeks Credit allowed to debtors — Average 8 weeks Lag in payment of Wages — Average 1.5weeks There is no lag (Delay) in payment of overheads Cash at bank is expected to be Rs. 50,000 Assume that production is carried out on evenly throughout during the 52 weeks of the year and wages accrue similarly. All sales are on Credit basis only. **OR** Calculate the Net Present Value, IRR and Profitability Index, ARR & Discounted payback period of the following cash flows with the discount rate of 12%. Initial Capital Investment is Rs. 45000 **Year** / **Cash Flows** **1** — Rs. 5,000 **2** — Rs. 6,000 **3** — Rs. 4,000 **4** — Rs. 7,000	**15**	**CO4**

Inner tables:

Raw Material	320
Direct Labour	120
Overheads	240
Total Cost	680

Year	Cash Flows
1	Rs. 5,000
2	Rs. 6,000
3	Rs. 4,000
4	Rs. 7,000

5	Rs. 10,000