

Name:
Enrolment No:



UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, December 2018

Course: MBA BA
Programme: Financial Analytics
Time: 03 hrs.
Instructions: Scientific Calculator is allowed

Semester: III
Code:FINC 8008
Max. Marks: 100

SECTION A

S. No.	Multiple Choice Questions	Marks	CO
Q 1	Satyam Scandal is the violation of a. Insider Trading Norm b. Corporate Governance Norm c. Risk Management norms d. Both a & b above	2	2
Q 2	MTM is used in a. Option b. Futures c. Forward d. Swap	2	2
	Differentiate the Following:		
Q 3	MIRR and XIRR	2	3
Q4	Systematic and Unsystematic Risk	2	4
	Fill in the Blanks		5
Q 5	Risk Free rate of Return = 10%, Beta = 1.5, Return on Market Portfolio=12.5%, so Ke=.....	2	1
Q 6	Fraud is defined as	2	2
Q 7	Financial risk refers to	2	3
Q 8signifies the organization's overall culture, raising awareness and management's commitment to integrity and the resources available to help employees achieve managements compliance goals	2	4
Q 9	Cost of Fraud includes.....	2	5
Q 10 Commonly includes activities such as theft, corruption,	2	3

	conspiracy, embezzlement, money laundering, bribery and extortion														
SECTION B															
Q 11	Discuss the Corporate Governance Failure in Enron Case Study in reference to following: a. Fiduciary Failure b. Conflict of Interest c. Lack of Independence	5	4												
Q 12	Variety of laws and regulations have emerged worldwide, providing organizations with an array of criteria to incorporate into their antifraud efforts. Considering the same, explain in detail the Fraud and Regulatory Framework.	5	3												
Q 13	Write Short Notes on the following a. Whistle Blower Mechanism b. Antifraud Programme	5	2												
Q 14	Describe Categories of Fraud? How Forensic Accounting is useful in Fraud Detection?	5	5												
SECTION C															
Q 15	<p>The following information of MTC Ltd is available to you for your perusal:</p> <p style="text-align: center;"><u>The present book value capital structure is as follows:</u></p> <p style="text-align: center;">Rs. In Lakh</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <tr> <td>Equity Capital</td> <td style="text-align: center;">100</td> </tr> <tr> <td>12% Preference Capital</td> <td style="text-align: center;">10</td> </tr> <tr> <td>Retained Earnings</td> <td style="text-align: center;">120</td> </tr> <tr> <td>14% Debentures</td> <td style="text-align: center;">70</td> </tr> <tr> <td>14% Loan</td> <td style="text-align: center;">100</td> </tr> <tr> <td></td> <td style="text-align: center;">400</td> </tr> </table>	Equity Capital	100	12% Preference Capital	10	Retained Earnings	120	14% Debentures	70	14% Loan	100		400	10	4
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	<p align="center">Anticipated external financing opportunities are:</p> <p>i. Rs 1000 per debenture redeemable at par; 7 year maturity,12% coupon rate , Discount @20% (Lump Sum)</p> <p>ii Rs 500, 11% preference shares redeemable at par: 10 years maturity, Discount @ 25% (Lump Sum)</p> <p>iii Equity shares are sold at Rs. 50 . Expected Dividend is Rs. 8 per share . Growth Rate is 4%</p> <p>The corporate tax rate is 30%. There is no Dividend Tax</p> <p>You are required to determine the weighted average cost of capital using the book value weights</p>																																									
<p>Q 16</p>	<p>The return on Security A and the Market Portfolio for 1 10 year period are given below:</p> <table border="1" data-bbox="435 1020 1101 1789"> <thead> <tr> <th>Year</th> <th>Return on Security A (%)</th> <th>Return on Market Portfolio (%)</th> </tr> <tr> <td></td> <td>RA</td> <td>RM</td> </tr> </thead> <tbody> <tr><td>1</td><td>10</td><td>12</td></tr> <tr><td>2</td><td>6</td><td>5</td></tr> <tr><td>3</td><td>13</td><td>18</td></tr> <tr><td>4</td><td>-4</td><td>-8</td></tr> <tr><td>5</td><td>13</td><td>10</td></tr> <tr><td>6</td><td>14</td><td>16</td></tr> <tr><td>7</td><td>4</td><td>7</td></tr> <tr><td>8</td><td>18</td><td>15</td></tr> <tr><td>9</td><td>24</td><td>30</td></tr> <tr><td>10</td><td>22</td><td>25</td></tr> <tr><td></td><td></td><td></td></tr> </tbody> </table> <p>Calculate Beta and alpha</p>	Year	Return on Security A (%)	Return on Market Portfolio (%)		RA	RM	1	10	12	2	6	5	3	13	18	4	-4	-8	5	13	10	6	14	16	7	4	7	8	18	15	9	24	30	10	22	25				<p align="center">10</p>	<p align="center">4</p>
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Q 17

A company has the following estimates of the present values of the future cash flows after taxes associated with the investment proposal concerned with expanding the plant capacity. It intends to use a decision tree approach to get a clear picture of the possible outcomes of this investment. The Power Plant expansion is expected to cost Rs. 3,00,000 . The respective PV of Future CFAT and probabilities is given below:

With Expansion (Rs.)	Without Expansion (Rs.)	Probabilities
3,00,000	2,00,000	0.2
5,00,000	2,00,000	0.4
9,00,000	3,50,000	0.2

Advise the company regarding the Financial Feasibility of the Project.

OR

Compute the Net Present Values of the two projects for each of the possible cash flows using Probability

	Probability	Project X ('000 Rs.)	Project Y ('000 Rs.)
Initial Cash Outlay (t=0)		240	240
Cash Flow Estimates (t=1-10)			
Worst	0.25	36	0
Most Likely	0.50	46	48
Best	0.25	60	64
Required Rate of Return		0.15	0.15
Economic Life (in Years)		12	12

10

4

SECTION D			
Q 18	<p>Briefly discuss the following in reference to Satyam Case Study</p> <ol style="list-style-type: none"> a. Consequences of Fraudulent Financial Reporting b. The Auditors Role And Factors Contributing To Fraud c. Corporate Governance Issue at Satyam d. Read the following paragraph and briefly explain the Satyam Scandal <p>The 2009 Satyam scandal in India highlighted the nefarious potential of an improperly governed corporate leader. As the fallout continues, and the effects were felt throughout the global economy, the prevailing hope is that some good can come from the scandal in terms of lessons learned (Behan, 2009). Here are some lessons learned from the Satyam Scandal:</p> <ul style="list-style-type: none"> • Investigate All Inaccuracies: The fraud scheme at Satyam started very small, eventually growing into \$276 million white-elephant in the room. Indeed, a lot of fraud schemes initially start out small, with the perpetrator thinking that small changes here and there would not make a big difference, and is less likely to be detected. This sends a message to a lot of companies: if your accounts are not balancing, or if something seems inaccurate (even just a tiny bit), it is worth investigating. Dividing responsibilities across a team of people makes it easier to detect irregularities or misappropriated funds. • Ruined reputations: Fraud does not just look bad on a company; it looks bad on the whole industry and a country. “India’s biggest corporate scandal in memory threatens future foreign investment flows into Asia’s third-largest economy and casts a cloud over growth in its once-booming outsourcing sector. The news sent Indian equity markets into a tail-spin, with Bombay’s main benchmark index tumbling 7.3% and the Indian rupee fell” (IMF, 2010). Now, because of the Satyam scandal, Indian rivals will come under greater scrutiny by the regulators, investors and customers. 	15	3

	<ul style="list-style-type: none"> • Corporate Governance needs to be stronger: The Satyam case is just another example supporting the need for stronger CG. All public-companies must be careful when selecting executives and top-level managers. These are the people who set the tone for the company: if there is corruption at the top, it is bound to trickle-down. Also, separate the role of CEO and Chairman of the Board. Splitting up the roles, thus, helps avoid situations like the one at Satyam. 		
Q 19	<p>Read the case and answer the following questions:</p> <p style="text-align: center;">Australia</p> <p>Australian coal is generally of good quality. Most of the production of coal comes from Queensland</p> <p>(Bowen basin), New South Wales (NSW) (Hunter Valley), brown coal from Southern Australia, and some production units are also in Western Australia. Australia has coal reserves of about 39.2 billion tonnes (bt), producing 436.5 mt in 2009-2010. Almost 50 percent of the coal extracted is exported to different countries, mainly Japan, Brazil, Korea, Taiwan, China, India, and European Union. Since 2010, however, India's share has been increasing rapidly. Queensland plays an active role in exports; the region produced 206.5 mt in 2009-10 from 54 coal mines (41 Opencast & 13 UG) and exported 186.9 mt in the same year, followed by New South Wales region which produced 145.5 mt in 2009-10 from 63 Mines (30 Opencast & 33 UG) and exported 109.9 mt. Some exports can be expected from Western Australia in the near future.</p> <p>Points of concern:</p> <ul style="list-style-type: none"> • Coal mining operations are very costly in Australia and are a major contributor to increased coal price volatility. • The NSW coal industry is largely limited to the port of New Castle and Wollongong because of mountain ranges that separate the inland Hunter Valley coal fields from the coast. • The vast distance to Indian coastal ports is not very attractive as the voyage 	15	5

	<p>time is long and shipping cost, thus high (\$ 102.5 - \$ 120 per Ton Thermal & \$ 200 - \$ 235 per Ton Coking coal) from Eastern Australia ports.</p> <ul style="list-style-type: none"> • Ample opportunities lie in Western Australia but the major roadblock in this region is getting access to the railway infrastructure which is managed by private companies. Domestic companies sometimes resist new miners gaining access to their railway networks. • Another important aspect is that Australian exports are affected by weather-related problems, especially between December and May, that limit rail speed and port loading. • The legal and regulatory framework in Australia it is not very complex. However, one major issue that clouds the mining sector is the new mining tax which the federal government wants to impose through the Carbon Tax and Mineral Resource Rent Tax (MRRT). Although the federal government declared its intent to impose the tax in the country from 2012, it is not yet clear when it would be implemented as the Australian indigenous industry is strongly opposing both the taxes. <p>Q 1: Differentiate between Future and Forward Contract? What can be used in Coal Import effectively?</p> <p>Q 2: How Hedging can be exercised in Coal Import from Australia using Future Contract.?</p> <p>Q 3: Critically examine the point of concern mentioned in the case study?</p> <p>Q 4: Discuss the coal scenario in Australia?</p>		