University of Petroleum & Energy Studies
School of Business
Kandoli Campus, Dehradun

Examination : End Semester Examination May 2018 **Semester : II**
Programme & Branch:
MBA MBA (Specialization in Finance Management/Operations/Marketing/HRM)
Course Code : FINC7019 **Duration : 3 Hrs**
Course Title : Financial Management **Max. Marks : 100**

Structure of the question paper and allocation of the marks is given below.
Note: All Sections are compulsory

Section –A (Objective Type) **(20*1)**

Multiple Choice Questions

Q 1: 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

Q 2: 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
c. Rs.3,00,000
d. Rs.6,50,000

Q3: According to NOI Model Ke =……..

a. Ke= Ko+(Ko-Kd)Debt/Equity
b. Ke= Kp+(Ko-Ki) Debt/Equity
c. Ke= Kr+(Ko-Kd) Debt/Equity
d. Ke= Ko+(Kd) Debt/Equity

Q4: The time period which is required to convert raw material in to finished goods and then in to cash is known as

a. Collection Cycle
b. Production Cycle
c. Operating Cycle
d. Sales Cycle

Q 5: The cost of capital decreases with the increase in the Debt in the Capital Structure. This is the proposition of

a. Net Operating Income Approach
b. Net Income Approach
c. MM Approach
d. Walter Approach

Q 6: Company Mahan ltd. has EPS of Rs. 5 per share , Cost of Equity (Capitalization Rate) = 10%, Rate of Return on Investment = 18%, D/P ratio= 25%. The price per share as per Walter Model is

a. Rs. 100
b. Rs.80
c. Rs.120
d. Rs.40

Differentiate the Following:

Q7: XIRR and IRR

Q 8: Gross Operating Cycle and Net Operating Cycle

Q 9: Cost of Deb and Cost of Preference Shares

Fill in the Blanks

Q 10: Risk Free rate of Return = 10%, Beta = 1.5, Return on Market Portfolio=12.5%, so Ke……..

Q 11: Arbitrage Argument as per MM Model of Dividend Policy is defined as……..

Q 12: Optimum Cash Balance as per Baumol Model is calculated as……

Q 13: Rate of Interest is 16% pa. Quarterly Compounded. Monthly Effective Rate is ……

Q 14: Beta is defined as……

Q 15: Ke as per NOI Model of Capital Structure is defined as……

Q 16: 5 C's of Credit are…… ……..

Q 17: Motives of Cash Management are…….……

Q 18: Doubling Period is defined as……

Q 19: MM of Capital Structure interprets that.....

Q 20: Coefficient of Variation is defined as …….……..

Section B

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

Q 1: Discuss the Degree of Financial Leverage (DFL) and its existence with example.

Q 2: (a) Jeevan Suraksha Cash Certificate of SBI is an ideal scheme for all Classes of people. The Rate of Interest is 12% compounded quarterly. Calculate the Issue Price (PV) of a certificate of Rs. 2,00,000 to be received after 10 years.

(b) A loan of Rs. 5,00,000 is to be repaid in 5 equal annual installments. If the loan carries a rate of interest of 15% p.a. Calculate the amount of each installment

Q3: A project has a cost of Rs. 10,00,000 and Scrap value is Rs. 2,00,000. Profit before Interest and Tax for 5 years are

Year 1	Rs. 2,00,000	Year 4	Rs. 3,20,000
Year 2	Rs. 3,00,000	Year 5	Rs, 4,00,000
Year 3	Rs. 5,00,000		

Tax Rate is 25%. Depreciation on Project Cost is on Straight Line Basis.

Calculate NPV and PI

Q 4: Write Short Notes on the Following

a. Wealth Maximization Approach of Financial Management
b. Pay Back Period
c. Value of Debt, Equity and Value of firm (NI Model of Capital Structure)

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

Attempt any 3 questions

Q5: Two companies T & M belong to the equivalent risk group. Two companies are identical in every aspect except that T is a levered and company M is unlevered. The outstanding amount of debt of the levered company is Rs. 30,00,000 @ 10 % debentures. The equity capitalization rate is 20% in levered firm and 15% in unlevered firm. EBIT is Rs. 7,50,000.
An investor owns 10% equity shares in company T. Show the arbitrage process according to Modigliani Miller Model of Capital Structure. Does arbitrage according to MM Model holds good ?

Q 6: The EPS of TLC Company is Rs.20. The company is examining to adopt dividend payout ratios of 0%, 25%, 50% ,75% and 100%. Calculate the market value of Company's share using Walter's model of dividend policy if the rate of return on investments is (i) 30% (ii) 15% given the Capitalization Rate (K_e) is 25%. What is your inference? Calculate Price of Shares also.

Q7: A firm has a capital structure exclusively comprising of ordinary shares amounting to Rs. 50,00,000. The firm wishes to raise additional capital Rs. 50,00,000 for expansion. The firm has four alternative financial plans

a. Raise entire amount in the form of equity capital
b. Raise 50% equity and 50% as 6 % Debentures
c. Raise entire amount as 7% Debentures

EBIT are Rs. 4,80,000 , Tax Rate is 25% . Ordinary Shares Existing are 50,000 and Market Price per share is Rs. 100.

Which Financial Plan should the form should select by EBIT EPS Analysis.

Q 8: Calculate the Price of Equity Share of Venus Lab limited

a. Dividend Per Share= Rs. 10.00
b. Duration of Super Normal Growth Period= 5 years
c. Growth Rate during Super Normal Growth Period= 20%
d. Normal growth rate after Super Normal Growth Period is over= 7%
e. Discounting Rate = 7%

Section D
Analytical/Case Study (2*15)

Q 9: While preparing a project report on behalf of a client, the following information pertaining to Client (JK Ltd.)is collected. You are required to estimate the net working capital. Add 10%to the computed figure to allow for contingencies.

Cost per unit in Rs.

Raw Material	160
Direct Labour	60
Overheads	120
Total Cost	340

Additional information:-

Selling Price	Rs. 400 per unit
Level of Activity	2,10,000 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 (Labour and Overheads) 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
Cash at bank is expected to be	Rs. 80,000

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.

Q 10: The capital structure of LU Industries as on 31.03.2018 is given below. The Company has the following capital structure

	Rs lakh
Equity Capital (30 lakh shares at par value)	300
Retained Earnings	200
10% Preference Shares (40,000 shares at par value)	40
11% Term loans	100
11% Debentures (1,60,000 debentures at par value)	160

The market price per equity share is RS. 100. The next expected dividend per share is Rs. 5.00 and DPS is expected to grow at a constant rate of 10%. The Preference shares are redeemable at par after 5 years. Face value of the preference share is Rs. 100. They are currently quoted at Rs 50 on the stock exchange. 10% Debentures are available at Rs 90 .These are redeemable at par after 5 years. Tax Rate is 25%

Calculate WACC, based upon given weights