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**UNIVERSITY OF PETROLEUM & ENERGY STUDIES
DEHRADUN**

End Semester Examination-May 2017

Program/course: MBA (PM)

Subject: Power Financial Management

Code : MBPF 912

No. of page/s:

Semester – II

Max. Marks : 100

Duration : 3 Hrs

Section A – Multiple Choice Questions, 1marks each

Q1. Walter's model suggests for 100% DP ratio when:

- a. $k_e = r$
- b. $k_e < r$
- c. $k_e > r$
- d. $k_e = 0$

Q2. Which of the following is not a function of a finance manager:

- a. Procurement of funds
- b. Allocation of funds
- c. Dividend decision
- d. Manipulating share price

Q3. Focal point in Financial Management is:

- a. Sales maximization
- b. No. of shareholders
- c. Increasing the market price of equity shares
- d. SENSEX

Q4. Discounting technique is used to find out:

- a. Final value
- b. Compounded value
- c. Present value
- d. Future value

Q5. Which of the following is called an annuity:

- a. Lump sum
- b. Series of regular and equal amounts
- c. Series of unequal amounts
- d. Small sum

Q6. Capital budgeting decisions are:

- a. Long term

- b. Short term
- c. Daily
- d. All of the above

Q7. If the closing balance of receivables is less than the opening balance for the month which one of the following is true:

- a. Collections > Current purchases
- b. Collections > Current sales
- c. Collections < Current purchases
- d. Collections < Current sales

Q8. Which of the following is a relevant cost in Capital Budgeting:

- a. Sunk cost
- b. Opportunity cost
- c. Cash inflows
- d. All of the above

Q9. Profitability Index is an extension of:

- a. Net present value
- b. Internal rate of return
- c. Payback period
- d. Accounting rate of return

Q10. In case of mutually exclusive projects:

- a. All projects with positive NPV are selected
- b. Even negative NPV projects are selected
- c. Only the best project is selected
- d. At least two proposals are selected

Q11. Which of the following have the highest cost of capital:

- a. Equity shares
- b. Loans
- c. Bonds
- d. Preference shares

Q12. Operating leverage is calculated as:

- a. Contribution / EBIT
- b. EBIT / PBT
- c. EBIT / Interest
- d. EBIT / Tax

Q13. In order to calculate EPS, Profit after tax and dividend is divided by:

- a. Market price of equity shares
- b. Number of equity shares
- c. Face value of equity shares
- d. None of the above

Q14. In case of Net Income Approach the cost of equity is:

- a. Constant
- b. Increasing
- c. Decreasing
- d. None of the above

Q15. Which of the following cost of capital requires tax adjustment-

- a. Cost of equity shares
- b. Cost of preference shares
- c. Cost of debentures
- d. Cost of retained earnings

Q16. Which of the following is studied with the help of financial leverage—

- a. Business risk
- b. Financing risk
- c. Production risk
- d. Credit risk

Q17. In order to design an optimal capital structure, a company should strive for:

- a. Maximum debt
- b. Minimum debt
- c. Minimum WACC
- d. Minimum cost of equity

Q18. In the case of net operating income approach which one of the following is increasing with leverage:

- a. Cost of equity
- b. Cost of debt
- c. WACC
- d. None of the above

Q19. MM model argues that dividend is irrelevant as:

- a. The value of the firm depends upon earning power
- b. The investors buy shares for capital gain
- c. Dividend is payable after deciding the retained earnings
- d. Dividend is small

Q20. Negative working capital implies that:

- a. Long term funds have been used for long term assets
- b. Long term funds have been used for current assets
- c. Short term funds have been used for current assets
- d. Short term funds have been used for long term assets

Section B Short Answer Questions, 5marks each

Q1. Describe in detail the drawbacks in having profit maximization as the objective of the finance manager?

Q2. What is meaning of the phrase “present value of a future amount”? How are the present values and the future values calculated?

Q3. Discuss briefly the concepts of (a) Discounted cash flow methods (b) Discounted payback period?

Q4. Write short notes on (a) Walter's approach to dividend policy and (b) Gordon's approach to relevance of the dividend decision?

Section C Descriptive questions, 10 marks each

Q1. A company has taken a loan of Rs.40 lacs to be repaid by equal annual instalments at the end of each of the next 10years. How much should the company equal annual instalment be if the interest rate is 15% in order to be able to repay the loan?

Q2. A company earns Rs.20 per share at an internal rate of return of 20%. The firm has a policy of paying 40% of earnings as dividends. If the required rate of return is 10%, determine the price of the share under a) Walter's Model b) Gordon's model ?

Q3. Consider the following information for Kaunark Enterprise:

EBIT	Rs. 1,120 lakhs
PBT	Rs. 320 lakhs
Fixed Cost	Rs. 700 lakhs

Calculate the percentage change in earnings per share if sales increased by 5 per cent?

Section D Analytical Case Study, 15 marks each, Answer any two questions

Q1. **Statement of Cost of Sales**

<i>Items</i>	<i>Projected in Cr.</i>
1. Purchase of raw material (credit)	45.6
2. Opening raw material inventory	7.6
3. Closing raw material inventory	9.2
4. Direct labor	15.3
5. Depreciation	2.6
6. Other mfg. expenses	5.8
7. Opening WIP inventory	3.1
8. Closing WIP inventory	4.6
9. Opening FG inventory	3.6
10. Closing FG inventory	2.9
11. Selling, Admin and General Expenses	2.1
Sales (credit)	82.7
Opening balance of debtors	14.9
Closing balance of debtors	20.5
Opening balance of creditors	8.0

Closing balance of creditors

12.0 15 marks

Compute the Gross Operating Cycle and the net operating cycle for the above data?

Q2.

- a) A company is engaged in evaluating an investment project which requires an initial cash outlay of Rs. 2,50,000 on equipment. The projects economic life is 10 years and its salvage value Rs. 30,000. It would require current assets of Rs.50,000. An additional investment of Rs. 60,000 would also be necessary at the end of 5 years to restore the efficiency of the equipment. This would be written off completely over the last five years. The project is expected to yield annual profit (before tax) of Rs. 1,00,000. The firm follows the straight line method of depreciation. Income tax rate is assumed to be 40%. Should the project be accepted according to NPV criterion if the minimum required rate of return is 20%?

10 marks

- b) Describe in detail the various determinants of the working capital in a firm?

5 marks

Q3. Securities X and Y have the following characteristics:

Security X		Security Y	
Return	Probability	Return	Probability
30%	0.1	-20%	0.05
20%	0.2	10%	0.25
10%	0.4	20%	0.3
5%	0.20	30%	0.3
-10%	0.1	40%	0.1

You are required to calculate the expected return and standard deviation of return for each security. Which security would you select for investment why?

Examine succinctly the concepts of: a) Diversification b) Systematic Risk c) Unsystematic Risk d) Beta e) Portfolio.

15 marks