

**UNIVERSITY OF PETROLEUM AND ENERGY STUDIES**

**End Semester Examination, December 2019**

**Course: B.COM., LLB. (Hons.) TL (2017)**

**Semester: V**

**Program: Fundamentals of investment**

**Time: 03 hrs.**

**Course Code: CLNL3003**

**Max. Marks: 100**

**Instructions:**

**SECTION- A**

**(Attempt all questions. Each questions carry equal marks)**

**10\*1=10**

| <b>S. No.</b> |  | <b>Marks</b> | <b>CO</b>  |
|---------------|--|--------------|------------|
| Q 1           | <b>Multiple type questions</b>   |              |            |
| 1.            | The period that a business enterprises takes in converting cash back to cash is known as –<br>i. Cash conversion cycle<br>ii. Operating cycle<br>iii. Business cycle<br>iv. Working capital cycle      | <b>1</b>     | <b>CO1</b> |
| 2             | Which of the following evaluation criterion does not consider the time value of money?<br>i. Profitability index<br>ii. Payback period<br>iii. Internal rate of return<br>iv. Net present value method | <b>1</b>     | <b>CO1</b> |
| 3.            | Contribution divided by operating profit is the formula of :<br>i. Financial leverage<br>ii. Operating leverage<br>iii. Composite leverage<br>iv. Combined leverage                                    | <b>1</b>     | <b>CO1</b> |
| 4.            | Dividend policy is _____<br>i. Very fixed<br>ii. Very flexible<br>iii. Very acceptable<br>iv. Very rejectable  | <b>1</b>     | <b>CO1</b> |
| 5.            | Capital budgeting means planning for _____<br>i. Cash<br>ii. Profit<br>iii. Capital assets<br>iv. None of these  | <b>1</b>     | <b>CO1</b> |
| 6.            | On the basis of time and requirement working capital can be classified as permanent working capital and _____<br>i. Variable working capital<br>ii. Temporary working capital                          | <b>1</b>     | <b>CO1</b> |

|     |   |   |     |
|-----|---|---|-----|
|     | iii. Mixed working capital<br>iv. Gross working capital   |   |     |
| 7.  | _____ maximization objective considers the risk and time value of money.<br>i. Profit<br>ii. Value<br>iii. Wealth<br>iv. Growth   | 1 | CO1 |
| 8.  | According to modern approach, financial management is mainly concerned with<br>i. Arrangement of funds<br>ii. All aspects of acquiring and utilizing financial resources for firm's activities<br>iii. Efficient management of every business<br>iv. Efficient use of funds | 1 | CO1 |
| 9.  | The full form of EBIT is _____<br>i. Earnings before Interest & Taxes<br>ii. Employed before Interest & Taxes<br>iii. Equity before Interest & Taxes<br>iv. None of the above   | 1 | CO1 |
| 10. | Which one of the following is not the instrument of primary capital market?<br>i. Initial Public Offer<br>ii. Right issue<br>iii. Private placement<br>iv. Certificate of deposits  | 1 | CO1 |

**SECTION B**

**(Attempt any 5 questions. Each questions carry equal marks)**

**5\*4=20 marks**

|      |                               |   |     |
|------|-------------------------------|---|-----|
| Q .2 | <b>Write short notes on:</b>  |   |     |
| 1.   | Return on Investment          | 4 | CO2 |
| 2.   | Profit Vs Wealth maximization | 4 | CO2 |
| 3.   | Permanent working capital     | 4 | CO2 |
| 4.   | Risk-return trade off         | 4 | CO2 |
| 5.   | Money market                  | 4 | CO2 |
| 6.   | EBIT-EPS analysis             | 4 | CO2 |

**SECTION-C**

**(Attempt any 4 questions. Each questions carry equal marks)**

**4\*5=20 marks**

|      |  |   |     |
|------|--|---|-----|
| Q .3 | <b>Short answer type questions:-</b>   |   |     |
| 1.   | Distinguish 'Hedging' approach from 'Conservative' approach in working capital management.   | 5 | CO3 |
| 2.   | XYZ Limited issues 5,000, 12% debentures of Rs.100 each at par, redeemable after 10 years at 10% premium. Cost of issue included administrative and other expenses | 5 | CO4 |

|    |  |   |     |
|----|--|---|-----|
|    | Rs.5,000 and commission 2%. Calculate cost of debt capital before & after tax (Tax rate 40%)   |   |     |
| 3. | “Liquidity and Profitability are competing goals for the finance manager’. Comment.  | 5 | CO3 |
| 4. | What are the basic principles of investment management programme?  | 5 | CO3 |
| 5. | Calculate operating leverage from following information:<br><br>Sales 40,000 units @ Rs.5 per unit - Rs.2,00,000<br>Variable cost - Rs. 2 per unit<br>Fixed costs - Rs. 90,000<br>Interest charges on debt capital - Rs. 5,000 | 5 | CO3 |

**SECTION-D**  
**(Attempt any 4 questions. Each questions carry equal marks)**  
**4\* 12.5 = 50 marks**

| Q.4                      | <b>Long answer type questions-</b>   |        |        |        |        |   |   |            |        |        |        |        |        |                          |       |       |       |       |       |      |     |
|--------------------------|--|--------|--------|--------|--------|---|---|------------|--------|--------|--------|--------|--------|--------------------------|-------|-------|-------|-------|-------|------|-----|
| 1.                       | Explain the concept of Optimal Capital structure. Critically examine the Net Income and Net Operating Income approaches to capital structure.  | 12.5   | CO3    |        |        |   |   |            |        |        |        |        |        |                          |       |       |       |       |       |      |     |
| 2.                       | What do you mean by Leverage? Discuss the various types of leverages with suitable examples.<br>(ii) What is indifference point? How is it determined?   | 12.5   | CO3    |        |        |   |   |            |        |        |        |        |        |                          |       |       |       |       |       |      |     |
| 3.                       | A company is considering an investment proposal to install a new machine. The project will cost Rs. 50,000 and will have life and no scrap value. Tax rate is 50%, the company follows a straight line method of depreciation. The cash flows after depreciation and tax is as follows:<br><br><table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Year</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> </tr> </thead> <tbody> <tr> <td>Cash flows</td> <td>10,000</td> <td>10,500</td> <td>12,000</td> <td>12,500</td> <td>17,500</td> </tr> <tr> <td>Discounting factor @ 10%</td> <td>0.909</td> <td>0.826</td> <td>0.751</td> <td>0.683</td> <td>0.621</td> </tr> </tbody> </table><br>Evaluate the project by using<br>(a) Payback period<br>(b) Average rate of return<br>(c) NPV at 10% &<br>(d) Profitability index at 10% | Year   | 1      | 2      | 3      | 4 | 5 | Cash flows | 10,000 | 10,500 | 12,000 | 12,500 | 17,500 | Discounting factor @ 10% | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 | 12.5 | CO4 |
| Year                     | 1  | 2      | 3      | 4      | 5      |   |   |            |        |        |        |        |        |                          |       |       |       |       |       |      |     |
| Cash flows               | 10,000   | 10,500 | 12,000 | 12,500 | 17,500 |   |   |            |        |        |        |        |        |                          |       |       |       |       |       |      |     |
| Discounting factor @ 10% | 0.909  | 0.826  | 0.751  | 0.683  | 0.621  |   |   |            |        |        |        |        |        |                          |       |       |       |       |       |      |     |

|    |  |             |            |
|----|--|-------------|------------|
| 4. | What is meant by working capital? Explain the factors that you would take into consideration for assessing the amount of working capital for different kinds of business enterprises of various sizes. | <b>12.5</b> | <b>CO4</b> |
| 5. | What is Capital market? Distinguish between 'Primary market' and 'Secondary market'. Briefly explain the various instruments of primary and secondary market.  | <b>12.5</b> | <b>CO4</b> |