

Name:

Enrolment No:



UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, December 2019

Course: BBA LLB CL/ B. Com LLB TL/ BBA LLB BFI/IT

Program: Financial Management

**Course Code: CLNL2016
100**

Semester: III

Time: 03 hrs.

Max. Marks:

S. No.

**SECTION-A
Attempt all the questions**

10*1=10 Marks

Marks CO

Q1. Multiple choice questions

a.	At which price the bond is traded in the stock exchange. a) Redemption value b) Face value c) Market value d) Maturity value	1	4
b.	The term "capital structure" refers to: a) Long-term debt, preferred stock, and common stock equity. b) Current assets and current liabilities. c) Total assets minus liabilities. d) Shareholders' equity.	1	2
c.	The traditional role of financial manager is responsible for _____ a) Proper utilization of funds b) Arrangements of financial resources c) Acquiring of financial resources d) Efficient management of capital	1	1
d.	The price of an equity share in the market is Rs 500, an expected dividend is Rs 56 and an expected growth rate is 9% then cost of equity would be? a) 45 b) 0.202 c) 0.302 d) 50	1	3
e.	A firm holding some cash to meet its routine expenses that are incurred in the ordinary course of business for? a) Speculative motive b) Transaction motive c) Precautionary motive d) Compensating motive	1	1
f.	The returns which the company pays on borrowed fund is termed as? a) Dividend b) Interest c) Bonus d) None of the above	1	2

g.	In calculating the costs of the individual components of a firm's financing, the corporate tax rate is important to which of the following component cost formulas? a) Common stock. b) Debt. c) Preferred stock. d) None of the above.	1	3										
h.	Present value consists of? a) Discounting rate b) Compounding rate c) Inflation rate d) Deflation rate	1	2										
i.	Which of the following is not be considered as capital market security? a) A corporate bond b) A common stock c) Treasury bill d) Mutual fund share	1	2										
j.	Working capital management is managing _____ a) Short term assets and liabilities b) Long term assets c) Long term liabilities d) Only short-term assets	1	4										
SECTION-B Attempt any 4 questions		4*5=20 Marks											
Q2.	Mention any 4 difference between systematic risk and unsystematic risk?	5	3										
Q3.	Explain any 2 money market securities?	5	2										
Q4.	Explain types of Working capital?	5	4										
Q5.	Write short note on cash management and inventory management?	5	1										
Q6.	Mr. X has Invested \$1,500 for 3 years in a Savings account which pays 10% interest per year. Calculate TVM annually and half yearly compound interest.	5	2										
SECTION-C Attempt any 2 questions		2*10=20 Marks											
Q7.	RBI is proposing to sell 7 years bond for 1900 @ 3% semi-annual rate of interest where redeemable @ 2% and discounted @ 6% identify the cash flow for investor and value of bond.	10	1										
Q8.	Identify operating leverage, financial leverage and combined leverage from following data: <table border="1" style="width: 100%; margin-top: 10px;"> <thead> <tr> <th style="width: 70%;">Particulars</th> <th style="width: 30%;">Amount</th> </tr> </thead> <tbody> <tr> <td>Sales 1,00,000 units @ Rs. 2 per unit</td> <td>Rs. 2,00,000</td> </tr> <tr> <td>Variable cost per unit @ Re. 0.70 per unit</td> <td></td> </tr> <tr> <td>Fixed costs</td> <td>Rs. 1,00,000</td> </tr> <tr> <td>Interest charges on debt capital</td> <td>Rs. 3,668</td> </tr> </tbody> </table>	Particulars	Amount	Sales 1,00,000 units @ Rs. 2 per unit	Rs. 2,00,000	Variable cost per unit @ Re. 0.70 per unit		Fixed costs	Rs. 1,00,000	Interest charges on debt capital	Rs. 3,668	10	4
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Q9.	<p>A company has to choose one of the following two mutually exclusive projects A&B. Project A requires Rs.20,000/- and Project B requires Rs.15,000/- as initial investment. The firms cost of capital is 10%. Suggest which project should be accepted under NPV method. Following are the net cash flows:</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Years</th> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> </tr> </thead> <tbody> <tr> <td>Project A</td> <td>4200</td> <td>4800</td> <td>7000</td> <td>8000</td> <td>4000</td> </tr> <tr> <td>Project B</td> <td>4200</td> <td>4500</td> <td>4000</td> <td>5000</td> <td>4000</td> </tr> </tbody> </table> <p>Identify Net present value and suggest which project will be preferred?</p>	Years	1	2	3	4	5	Project A	4200	4800	7000	8000	4000	Project B	4200	4500	4000	5000	4000	10	2
Years	1	2	3	4	5																
Project A	4200	4800	7000	8000	4000																
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SECTION-D	50 Marks
Attempt all questions	

Q10.	<p>The following are the capital structure of Sunil Ltd. as on 30.11.2015</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th>Particulars</th> <th>Amount (Rs)</th> </tr> </thead> <tbody> <tr> <td>Equity shares 10,000 shares (of Rs 100 each)</td> <td>10,00,000</td> </tr> <tr> <td>10% preference share (of Rs 100 each)</td> <td>4,00,000</td> </tr> <tr> <td>12% Debenture</td> <td>6,00,000</td> </tr> <tr> <td>Total</td> <td>20,00,000</td> </tr> </tbody> </table> <p>Information: The market price of the company share is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared for the year 2015. The dividend growth rate is 6%.</p> <p>Questions</p> <ol style="list-style-type: none"> a) If the company is in the 50% tax bracket, compute the weighted average cost of capital? (15 Marks) b) Assuming that in order to finance and expansion plan the company intends to borrow a fund of Rs. 10 lakhs bearing 14% rate of interest, what will be the company revised weighted average cost of capital? (15 Marks) c) How will you determine the cost of capital from different sources? (10 Marks) d) Give some of the factors that affect with affects the dividend policy of the firm. (10 Marks) 	Particulars	Amount (Rs)	Equity shares 10,000 shares (of Rs 100 each)	10,00,000	10% preference share (of Rs 100 each)	4,00,000	12% Debenture	6,00,000	Total	20,00,000		3
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Total	20,00,000												

Periods (<i>n</i>)	Interest rates (<i>r</i>)									
	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%
1	0.990	0.980	0.971	0.962	0.952	0.943	0.935	0.926	0.917	0.909
2	0.980	0.961	0.943	0.925	0.907	0.890	0.873	0.857	0.842	0.826
3	0.971	0.942	0.915	0.889	0.864	0.840	0.816	0.794	0.772	0.751
4	0.961	0.924	0.888	0.855	0.823	0.792	0.763	0.735	0.708	0.683
5	0.951	0.906	0.863	0.822	0.784	0.747	0.713	0.681	0.650	0.621
6	0.942	0.888	0.837	0.790	0.746	0.705	0.666	0.630	0.596	0.564
7	0.933	0.871	0.813	0.760	0.711	0.665	0.623	0.583	0.547	0.513
8	0.923	0.853	0.789	0.731	0.677	0.627	0.582	0.540	0.502	0.467
9	0.914	0.837	0.766	0.703	0.645	0.592	0.544	0.500	0.460	0.424
10	0.905	0.820	0.744	0.676	0.614	0.558	0.508	0.463	0.422	0.386
11	0.896	0.804	0.722	0.650	0.585	0.527	0.475	0.429	0.388	0.350
12	0.887	0.788	0.701	0.625	0.557	0.497	0.444	0.397	0.356	0.319
13	0.879	0.773	0.681	0.601	0.530	0.469	0.415	0.368	0.326	0.290
14	0.870	0.758	0.661	0.577	0.505	0.442	0.388	0.340	0.299	0.263
15	0.861	0.743	0.642	0.555	0.481	0.417	0.362	0.315	0.275	0.239
16	0.853	0.728	0.623	0.534	0.458	0.394	0.339	0.292	0.252	0.218
17	0.844	0.714	0.605	0.513	0.436	0.371	0.317	0.270	0.231	0.198
18	0.836	0.700	0.587	0.494	0.416	0.350	0.296	0.250	0.212	0.180
19	0.828	0.686	0.570	0.475	0.396	0.331	0.277	0.232	0.194	0.164
20	0.820	0.673	0.554	0.456	0.377	0.312	0.258	0.215	0.178	0.149

Periods (<i>n</i>)	Interest rates (<i>r</i>)									
	11%	12%	13%	14%	15%	16%	17%	18%	19%	20%
1	0.901	0.893	0.885	0.877	0.870	0.862	0.855	0.847	0.840	0.833
2	0.812	0.797	0.783	0.769	0.756	0.743	0.731	0.718	0.706	0.694
3	0.731	0.712	0.693	0.675	0.658	0.641	0.624	0.609	0.593	0.579
4	0.659	0.636	0.613	0.592	0.572	0.552	0.534	0.516	0.499	0.482
5	0.593	0.567	0.543	0.519	0.497	0.476	0.456	0.437	0.419	0.402
6	0.535	0.507	0.480	0.456	0.432	0.410	0.390	0.370	0.352	0.335
7	0.482	0.452	0.425	0.400	0.376	0.354	0.333	0.314	0.296	0.279
8	0.434	0.404	0.376	0.351	0.327	0.305	0.285	0.266	0.249	0.233
9	0.391	0.361	0.333	0.308	0.284	0.263	0.243	0.225	0.209	0.194
10	0.352	0.322	0.295	0.270	0.247	0.227	0.208	0.191	0.176	0.162
11	0.317	0.287	0.261	0.237	0.215	0.195	0.178	0.162	0.148	0.135
12	0.286	0.257	0.231	0.208	0.187	0.168	0.152	0.137	0.124	0.112
13	0.258	0.229	0.204	0.182	0.163	0.145	0.130	0.116	0.104	0.093
14	0.232	0.205	0.181	0.160	0.141	0.125	0.111	0.099	0.088	0.078
15	0.209	0.183	0.160	0.140	0.123	0.108	0.095	0.084	0.079	0.065
16	0.188	0.163	0.141	0.123	0.107	0.093	0.081	0.071	0.062	0.054
17	0.170	0.146	0.125	0.108	0.093	0.080	0.069	0.060	0.052	0.045
18	0.153	0.130	0.111	0.095	0.081	0.069	0.059	0.051	0.044	0.038
19	0.138	0.116	0.098	0.083	0.070	0.060	0.051	0.043	0.037	0.031
20	0.124	0.104	0.087	0.073	0.061	0.051	0.043	0.037	0.031	0.026