# UNIVERSITY OF PETROLEUM & ENERGY STUDIES
## Mid Semester Examination (Online) – Oct, 2020

**Program: B. Com (Hons + BMI + Tax)**　　　　　　　　**Semester: III**
**Subject/Course: Money & Firm**　　　　　　　　　　　**Max. Marks: 100**
**Course Code: FINC2020P**　　　　　　　　　　　　　　**Duration: 3 Hours**

## SECTION A

**1. Each Question will carry 5 Marks**
**2. Instruction: Complete the statement / Select the correct answer(s)**

| S.No. | Question | CO |
|---|---|---|
| Q 1. | What are the important features of investment decisions?<br>　a. Funds are invested in long-term assets<br>　b. Future benefits will occur to the firm over a series of years<br>　c. Both of them<br>　d. None of them | CO1 |
| Q 2. | Investment can be defined as:<br>　a. Person's dedication to purchasing a house or flat<br>　b. Use of capital on assets to receive returns<br>　c. Usage of money on a production process of products and services<br>　d. Net additions made to the nation's capital stocks | CO1 |
| Q 3. | CAPM stands for.<br>　a. Capital asset pricing model.<br>　b. Capital amount printing model.<br>　c. Capital amount pricing model.<br>　d. Capital asset printing model. | CO3 |
| Q 4. | Identification of investment ideas is the most critical aspect of the **1** process and should be guided by the overall **2** of a firm. It needs appropriate **3**. Each potential idea should be developed into a **4**.<br>Fill in the blanks with the following words in appropriate order.<br>*Project, Strategic considerations, Investment, Managerial focus* | CO2 |
| Q 5. | The cost of debt capital is calculated on the basis of _____ .<br>　a. Net proceeds<br>　b. Annual Interest<br>　c. Annual Depreciation<br>　d. Capital | CO3 |

| Q 6. | Which of the following is the goal of financial management?<br><br>a. Maximize the wealth of Equity shareholders<br>b. Maximize the wealth of Preference Shareholders<br>c. Maximize the wealth of Debenture holders<br>d. All of the above. | CO1 |
|---|---|---|

<div align="center"><b>SECTION B</b></div>

**1. Each Question will carry 10 Marks**
**2. Instruction: Write short / brief notes**

| Q 7. | Describe, illustrate, compare and contrast each of the following share valuation models:<br>a) Zero growth b) Constant growth c) Variable growth | CO1 |
|---|---|---|
| Q 8. | Write a note on the conflict between NPV and IRR technique. Illustrate with an example. | CO2 |
| Q 9. | a) A company has issued Rs. 10 irredeemable preference shares on which it pays a dividend of Rs. 9. Assume that this type of preference share is currently yielding a dividend of 11%. What is the value of preference share?<br><br>b) Dividend $(Y_2)$= Rs 2.10       Price $(Y_2)$= Rs 22.05<br>Dividend $(Y_1)$= Rs 2       $K_d$= 15%<br>Find the price of the share today $(P_0)$. | CO1 |

| Q 10. | The Alphabets Incorporation is considering the purchase of a new machine. Two alternative machines (A and B) have been suggested each costing Rs. 4,00,000. Earnings after taxation are expected to be as follows:<br><br>| Year | Cash Flow (Rs.) | |<br>| | Machine A | Machine B |<br>| 1 | 40,000 | 1,20,000 |<br>| 2 | 1,20,000 | 1,60,000 |<br>| 3 | 1,60,000 | 2,00,000 |<br>| 4 | 2,40,000 | 1,20,000 |<br>| 5 | 1,60,000 | 80,000 |<br><br>You are require to suggest which machine should be preferred based on:<br>  a. NPV Method       b. Profitability Index<br><br>Note: The present value of Rs. 1 @ 10 %<br>1 Year = 0.91      2 Years = 0.83      3 years = 0.75      4 years = 0.68<br>5 year = 0.62 | CO2 |
|---|---|---|

| Q 11. | A company has the sources of Capital used:<br><br>| Component of Capital | BV | Proportion (%) | After-tax cost (%) |<br>|---|---|---|---|<br>| Debt | 450,000 | 30 | 7 |<br>| Preference | 375,000 | 25 | 10 |<br>| Equity | 675,000 | 45 | 15 |<br>| **Total** | **15,00,000** | **100** | | | CO3 |
|---|---|---|

| | | |
|---|---|---|
| | a) Determine the weighted average cost of capital using book Value weights<br>b) The firm wishes to raise further Rs. 6,00,000 for the expansion of the project as below:<br><br>Debt                                           3,00,000<br>Preference Capital                     1,50,000<br>Equity Capital                           1,50,000<br><br>Assuming that specific costs do not change, compute the new weighted cost of capital after of the change. | |

## SECTION C

**1. Each Question will carry 20 Marks**
**2. Instruction: Write long answer**

| | | |
|---|---|---|
| Q 12. | a) The annual demand for a product is 6,400 units. The unit cost is Rs.6 and inventory carrying cost per unit per annum is 25% of the average inventory cost. If the cost of procurement is Rs. 75, determine: Economic Order Quantity (EOQ); Number of orders that should be placed per annum and the time between two consecutive orders **(10)**.<br>b) Write a note on the models of maintaining inventory **(10)**.<br><br>*OR*<br><br>c) Write a note on the motives of holding cash **(5)**<br>d) Prepare a cash budget for the quarter ended 30th September, 2020 based on the following information:<br>Cash at bank on 1<sup>st</sup> July 2020                           Rs. 25,000<br>Salaries and wages estimated per month         Rs. 10,000<br>Interest payable in August 2020                    Rs. 5,000 | CO4 |

| | June<br>Rs. | July<br>Rs. | August<br>Rs. | September<br>Rs. |
|---|---|---|---|---|
| **Estimated Cash Sales** | - | 1,40,000 | 1,52,000 | 1,21,000 |
| **Credit sales** | 1,00,000 | 80,000 | 1,40,000 | 1,20,000 |
| **Purchases** | 1,60,000 | 1,70,000 | 2,40,000 | 1,80,000 |
| **Other expenses** | - | 20,000 | 22,000 | 21,000 |

Credit sales are collected 50% in the month of sales with 5% discount. Rest 50% is collected in the month following sales with 2.5% discount. It is estimated that 10% of the creditors are made prompt payment in the month of purchase and rest in the following month. **(15)**

**ALL THE BEST!!!**