UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, December 2021

Course: Financial Management
Program: BBA-LLB-H
Course Code: CLTX 5002

Semester : I
Duration : 03 hrs.
Max. Marks: 100

Instructions:

SECTION A
(Type the answers in test box)

Objective Type Questions/Definitions/fill in the blanks

5Qx2M=10 Marks

Q. No.		Marks	CO
1	Management of all matters related to an organisation's finances is called: a) Cash inflows and outflows b) Allocation of services c) Financial Management d) Finance	2	CO1
Ans.			
2	Maximization of Shareholders' wealth is reflected in: a) Sales Maximization b) Number of shareholders c) Market price of equity shares d) SENSEX	2	CO2
Ans.			
3	Capital Budgeting is done for: a) Evaluating short term investment decisions b) Evaluating medium term investment decisions c) Evaluating long term investment decisions d) All of the Above	2	CO1
Ans.			
4	Debt Capital refers to: a) Money raised through the sale of shares b) Funds raised by borrowing that must be repaid c) Factoring accounts receivables d) Inventory Loans	2	CO1
Ans.			

5	Which of the following is not a capital budgeting decision? a) Expansion program b) Merger c) Replacement of an asset d) Inventory Level	2	CO4
Ans.			

SECTION B (Answer any 04 questions)

(Scan and upload)

(Conceptual based question) 4Q x5M=20 Marks

Q. No.		Marks	
1	Evaluate the discounted cash flow methods of Capital Budgeting.	5	CO3
Ans.			
2	Rs. 15,000 is invested at interest rate of 12% per annum, what is the amount after 4 years if compounding of interest is done annually.	5	CO4
Ans.			
3	Discuss in brief about the evolution of Financial Management.	5	CO1
Ans.			
4	A Rs 1000 bond matures in 20 years and offers a coupon rate of 9%. The required rate of return is 11%. What is the bond's value?	5	CO2
Ans.			
5	Write a brief note on Capital Asset Pricing Model.	5	CO3
Ans.			

SECTION-C (Answer any 02 questions)

(Scan and upload)

(Descriptive/ Analytical Questions) 2Qx10M =20 Marks

Q.No.		Marks	CO
1	"Profit maximization cannot be the sole objective of a company." Comment.	10	CO4
Ans.			
2	The following details relate to an investment project which involves purchasing a machine for $260,000 in year 0 and selling it for $20,000 in year 4.	10	CO2

Year	Post Tax Cash Flows ($)
0	(260,000)
1	120,000
2	150,000
3	80,000
4	60,000

	The following data is to be used to answer the following questions: a. Calculate the discounted payback period of the investment to the nearest 0·01 years, assuming the post-tax cost of capital is 12%. **(5 marks)** b. Calculate the Accounting Rate of Return (ARR) of the investment. **(2.5 marks)** Calculate the Internal Rate of Return (IRR) of the investment. **(2.5 marks)**		
Ans.			
3	Write a short note on need and importance of Financial Management.	10	CO1
Ans.			

SECTION-D (Answer any 02 questions)

(Scan and upload)

(Case Studies/ Application Based Questions) 2Qx25M =50 Marks

Q.No.		**Marks**	**CO**
1	The following is the capital structure of a Company:	25	CO 3

Source of capital	Book Value (in Rs.)	Market Value (in Rs.)
Equity shares @ Rs.100 each	60,00,000	1,40,00,000
9% Cumulative Preference shares @ Rs.100 each	35,00,000	39,00,000
12% Debentures	65,00,000	71,00,000
Retained Earnings	40,00,000	-
	2,00,00,000	**2,50,00,000**

The current market price of the company's equity share is Rs 240. For the last year the company had paid equity dividend at 18 per cent and its dividend is likely to grow 5 per cent every year. The corporate tax rate is 30 per cent.

You are required to calculate:

(i) Cost of capital for each source of capital.
(ii) Weighted average cost of capital on the basis of book value weights
(iii) Weighted average cost of capital on the basis of market value weights

Ans.			
2	(a) XYZ Limited is considering the installation of a new project costing Rs 40,00,000. Expected annual sales revenue from the project is Rs 45,00,000 and its variable costs are 60 percent of sales. Expected annual fixed cost other than interest is Rs 8,00,000. Corporate tax rate is 30 percent. The Company has issued 2,00,000 equity shares of Rs 10 each and 12 percent debentures of Rs 20,00,000. You are required to calculate the Operating, Financial and Combined leverages and Earnings per share (EPS).	25	CO 4

	(b) A person opened an account on April, 2016 with a deposit of Rs. 1000. The account paid 12% interest compounded quarterly. On October 1, 2016, he closed the account and added enough additional money to invest in a 6-month Time Deposit for Rs. 1800 earning 12% compounded monthly. a) How much total amount did the person invest on October 1? b) What was the maturity value of his Time Deposit on April 1, 2017?		
Ans.			
3	JKL Limited wants to buy a new automatic packing machine. Two models A and B are available at the same cost of Rs 5 lakhs each. The earnings after taxation are expected to be:	25	CO 4

Year	**Cash in flows**		
	A	**B**	**PV factors @15%**
1	1,00,000	2,00,000	0.870
2	1,50,000	2,10,000	0.756
3	1,80,000	1,80,000	0.658
4	2,00,000	1,70,000	0.572
5	1,70,000	40,000	0.497

The targeted return on capital is 15%. The machine will be sold by JKL Ltd. at the end of Year 5. You are required to compute, for the two machines separately, net present value. Advice which of the machines is to be selected?