



University of Petroleum & Energy Studies

School of Business

Kandoli Campus, Dehradun

End Semester Examination – May, 2018

Programme Name: **BBA(AIS + FT)**

Subject: Financial Management

Subject code: FINC1002

Semester: II

M.Marks: 100

Duration: 3 Hrs

Note: All sections are compulsory.

Section –A

(10*2)

Objective type

Q1.

1. $P(1+i)^n$ denotes:
a) PVA b) FVA c) PV d) FV^n
2. If the profitability index of a project is 1.23, it means that:
a) Project would be selected b) project would be rejected
3. When distributors pay in advance to purchase finished goods, it is called:
a) Prepaid expense b) Current liability c) Prepaid income
4. The irrelevancy theory of dividend was supported by:
a) Modigliani-Miller b) Walter c) Gordon d) Fama
5. Which one of the following is the most common form of dividend payment?
a) Cash dividend b) Stock splits c) Bonus issue d) Stock dividend
6. The major defect in the MM model were:
a) Ignored risk b) Ignored tax c) Assumption of perfect market conditions
7. Which one of the following is not apart of capital structure?
a) Current assets b) Equity shares c) Debentures d) Retained Earnings
8. An individual give time preference to money because of:
a) Investment option b) Future needs c) Risk free rate d) Internal rate of retur
9. When $NPV=0$, it means:
a) The project would be reviewed c) The project would be rejected
b) The project selection depends on the strategic decision d) The project would be accepted
10. The maintenance of inventory helps an organization to enhance its -----.
a) Sales b) Purchase c) Distribution d) Managerial efforts

Section (B) Short Types (4*5 marks) 20 Marks

Q1. What is the purpose of managing receivables?

Q2. Mr. X is depositing Rs 2,000 in a recurring bank deposit which pays 9% p.a. compounded interest. How much amount Mr.X will get at the end of 5th year?

Q3. Star Ltd has its equity shares of Rs 10 each quoted in a stock exchange has market price of Rs 56. A constant expected annual growth rate of 6%, and a dividend of Rs 3.60 per share has been paid for the current year. Calculate the cost of capital?

Q4. The operating cycle of a company consist of what elements?

Section (C) Long Types (2*15 marks) 30 Marks

Q1. The continuous deficit in cash flow will show the signal for forthcoming situation of financial distress. What are the reasons that arise cash flow problem?

OR

“Walter model asserts that retentions influence stock price only through their effect on future dividends.” Discuss.

Q2. Prepare a statement showing the working capital requirements forecast for a level of activity of 1,56,000 units of production. The following information is available in Rs per unit:

Raw material	Rs 90
Direct labor	Rs 40
Overheads	Rs 75
Selling price	Rs 265

- a) Raw materials are in stock on average one month.
- b) Materials are in progress, on average 2 weeks.
- c) Finished goods are in stock, on average one month.
- d) Credit allowed by suppliers-one month.
- e) Time lag in payment from debtors (cost basis)-2 months.
- f) Lag in payment of wages-1.5 weeks
- g) Lag in payment of overheads-one month.

20% of the output is sold against cash. Cash in hand and at bank is expected to be Rs 60,000. It is to be assumed that production is carried on evenly throughout the year. Wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.

Section (D) Case Study 30 Marks

The company is thinking of investing in a project costing Rs 20 lakhs. The life of the project is 5 years and the estimated salvage value of the project is zero. Straight line method of charging depreciation is followed. The tax rate is 50%. The expected cash flows before tax are as follows:

Year	1	2	3	4	5
Estimated cash flow before depreciation and tax (Rs Lakhs)	4	6	8	8	10

You are required to appraise the project by

- a) Payback period
- b) ARR
- c) NPV @ 10%
- d) PI