Name: **Enrolment No:**	UPES UNIVERSITY WITH A PURPOSE

UNIVERSITY OF PETROLEUM & ENERGY STUDIES
Online End Semester Examination, May 2021

Course: Financial Management **Semester: IV**
Program: B. Com (H)- BMI & Taxation **Time 03 hrs.**
Course Code: FINC 2019 **Max. Marks: 100**

SECTION A

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

S.No.	Question	CO
1.	In FM, the term risk refers to: A. Chances of incurring losses B. Variability of future outcome C. Chances of no return D. None of the above	**CO1**
2.	Maximization of Shareholders' wealth is reflected in: A. Sales Maximization B. Number of shareholders C. Market price of equity shares D. SENSEX	**CO1**
3.	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? A. ₹ 719.67 B. ₹ 124 C. ₹ 840.67 D. ₹ 804.76	**CO2**
4.	The value of the share when EPS=4 and P/E ratio= 12.5 is: A. ₹ 105 B. ₹ 50 C. ₹ 150 D. ₹ 100	**CO2**
5.	Which of the following is not a capital budgeting decision? A. Expansion program B. Merger	**CO3**

	C. Replacement of an asset D. Inventory Level	
6.	Which of the following does not affect cash flows from a proposal? A. Salvage value B. Depreciation amount C. Tax rate change D. Method of project financing	**CO3**

SECTION B

1. **Each question will carry 10 marks**
2. **Instruction: Write short / brief notes**

7.	What is P/E ratio? Explain the concept using its formula and an example. Also explain the limitations of P/E Ratio.	**CO1**
8.	The following details relate to an investment project which involves purchasing a machine for $260,000 in year 0 and selling it for $20,000 in year 4. **Year** / **Post Tax Cash Flows ($)** **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)** c. Calculate the Internal Rate of Return (IRR) of the investment. **(2.5 marks)**	**CO2**
9.	(a) A Company expects a net income of Rs. 1,00,000. It has Rs. 2,50,000, 8% debentures. The equality capitalization rate of the company is 10%. Calculate the value of the firm and overall capitalization rate according to the net income approach (ignoring income tax). **(5 marks)** (b) If the debenture debts are increased to Rs. 4,00,000. What shall be the value of the firm and the overall capitalization rate? **(5 marks)**	**CO3**
10.	Write a short note on the following: ***(any two)*** **(5 marks each)** a. Factors determining the working capital requirements b. Techniques of inventory management c. Models of cash management	**CO4**
11.	a. A company needs $150,000 every year for regular payments. Converting the company's short term investments into cash to meet these regular payments by incurring a fixed cost of	**CO4**

	$400 per transaction. These short-term investments pay 5% per year, which the company earns interest of only 1% per annum on cash deposits. **(5 marks)** According to the Baumol's model what is the optimum amount of short-term investments to convert into cash in each transaction? b. A company is considering using the Miller-Orr Model to manage its cash flows. The minimum cash balance would be $100,000 and the spread is expected to be $15,000. What will be the Miller-Orr model return point? **(5 marks)**	
SECTION C **1. Each question will carry 20 marks** **2. Instruction: Write long answers**		
12.	a. SBIN company belongs to a risk class for which the appropriate capitalization rate is 12%. It currently has outstanding 30000 shares selling at Rs. 100 each. The firm is contemplating the declaration of dividend of Rs. 6 per share at the end of the current financial year. The company expects to have a net income of Rs. 3,00,000 and a proposal for making new investments of Rs. 6,00,000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm. How many new shares issued and what is the market value at the end of the year? **(15 marks)** b. Write a short note on the theories of relevance and irrelevance of dividend. **(5 marks)**	**CO4**