



Name:

Enrolment No:

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, December 2022

Course: Financial Management
Program: MBA-Global
Course Code: FINC 7019

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

Instructions:

SECTION A
10Q x 2M =20Marks

S. No.	Select the correct answer(s)	Marks	CO
Q1.	The capital budget is associated with. A. Long terms and short terms assets B. Fixed assets C. Long terms assets D. Short term assets	2	CO1
Q2.	CAPM stands for. A. Capital asset pricing model. B. Capital amount printing model. C. Capital amount pricing model. D. Capital asset printing model.	2	CO1
Q3.	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	2	CO1
Q4.	The value of the share when EPS=4 and P/E ratio= 12.5 is: A. ₹ 105 B. ₹ 50 C. ₹ 150 D. ₹ 100	2	CO1

Q5.	The investment decisions should aim at investment in assets only when they are expected to earn a return greater than a minimum acceptable return is termed as: A. Hurdle rate B. Growth rate C. Interest rate D. IRR	2	CO1
Q6.	The financial health of the firm depends on its ability to generate sufficient _____ to pay its employees, suppliers, creditors and owners. A. Cash B. Profit C. Wealth D. Growth	2	CO1
Q7.	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	2	CO1
Q8.	Wealth maximization means maximizing the _____ of a course of action. A. Profit B. Growth C. NPV D. IRR	2	CO1
Q9.	An investor wants to increase the present value the rate of discount applied for should be A. Increased B. Decreased C. Any of (A) and (B) D. One of the above	2	CO1
Q10.	Which of the following represents the financing decision? A. Designing optimal capital structure B. Declaring dividend C. Paying interest on loans D. None of the above	2	CO1

SECTION B
4Q x 5M = 20 Marks

Q11.	Market price of a bond is ₹883.40 (FV= ₹1,000). The bond will pay interest of 6% p.a. for 5 years, after which it will be redeemed at par. Determine bond's rate of return?	5	CO2												
Q12.	State on any two of the statements whether they are true/false along with justification? A. Profit/EPS maximization is the sole objective of financial management. B. Agency problem occurs when the management tries to fulfil its own interests at the cost of value of the firm. C. Financial Management deals with two major decisions/functions, namely, investment and financial decisions.	5	CO2												
Q13.	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	CO2												
Q14.	Evaluate the IRR technique of discounted cash flow methods of Capital Budgeting.	5	CO2												
SECTION-C 3Q x 10M =30 Marks															
Q15.	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. <table border="1" style="width: 100%; margin: 10px 0;"><thead><tr><th style="text-align: center;">Year</th><th style="text-align: center;">Post Tax Cash Flows (\$)</th></tr></thead><tbody><tr><td style="text-align: center;">0</td><td style="text-align: center;">(260,000)</td></tr><tr><td style="text-align: center;">1</td><td style="text-align: center;">120,000</td></tr><tr><td style="text-align: center;">2</td><td style="text-align: center;">150,000</td></tr><tr><td style="text-align: center;">3</td><td style="text-align: center;">80,000</td></tr><tr><td style="text-align: center;">4</td><td style="text-align: center;">60,000</td></tr></tbody></table> 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%. b. Calculate the Internal Rate of Return (IRR) of the investment.	Year	Post Tax Cash Flows (\$)	0	(260,000)	1	120,000	2	150,000	3	80,000	4	60,000	10	CO3
Year	Post Tax Cash Flows (\$)														
0	(260,000)														
1	120,000														
2	150,000														
3	80,000														
4	60,000														
Q16.	Comment on the NOI theory of capital structure while stating its assumptions. <i>Or</i> Assess the reasons why money in the future is worth less than similar money today.	10	CO3												
Q17.	a. Compare NPV vs. IRR b. Summarize Reinvestment Assumption c. Assess Modified IRR	10	CO3												
SECTION-D 2Q x 15M= 30 Marks															
Q18.	The following is the capital structure of a Company: <table border="1" style="width: 100%; margin: 10px 0;"><thead><tr><th style="text-align: center;">Source of Capital</th><th style="text-align: center;">Book Value (in ₹)</th><th style="text-align: center;">Market Value (in ₹)</th></tr></thead><tbody></tbody></table>	Source of Capital	Book Value (in ₹)	Market Value (in ₹)	15	CO4									
Source of Capital	Book Value (in ₹)	Market Value (in ₹)													

Equity Share @ Rs. 100	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 determine:

- i. Cost of capital for each source of capital.
- ii. Weighted average cost of capital based on book value weights
- iii. Weighted average cost of capital based on market value weights

Or

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 predict the Operating, Financial and Combined leverages, and Earnings per share (EPS).

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:

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. Comment on which of the machines is to be selected?

Q19.

15

CO4

Or

- A. Explain the factors affecting the Working capital requirements?
- B. Appraise the policies on Working capital requiremenets.