



Name:

Enrolment No:

**UNIVERSITY OF PETROLEUM AND ENERGY STUDIES**

**End Semester Examination, May 2022**

**Course: Financial Management**

**Program: BBA Core (Batch-2)**

**Course Code: FIN1002**

**Semester: : II**

**Time : 03 hrs.**

**Max. Marks : 100**

**Instructions:**

**SECTION A**  
**10Qx2M=20Marks**

S. No.		Marks	CO
Q 1	Which of the following methods involves computing the cost of capital by dividing the dividend by market price/net proceeds per share? a) Adjusted price method b) Price earning method c) Dividend yield method d) Adjusted dividend method	2	CO1
Q 2	Which among the following figures is not relevant while calculating the cost of the redeemable preference shares?  a) Earnings per share b) Flotation cost c) Discount d) None of the above	2	CO1
Q 3	CAMP stands for: a) Capital assessment pricing model. b) Capital asset pricing model. c) Capital asset placement model. d) None of these.	2	CO2
Q 4	..... is the amount left over after individual consumption: a) Investment b) Saving c) Surplus d) Money	2	CO1
Q 5	Find the odd one: a) Risk b) Return c) Standard deviation d) Tax evasion	2	CO3
Q 6	An investor committed money for a short period expect: a) Return from price fluctuation	2	CO2

	<ul style="list-style-type: none"> <li>b) Dividend</li> <li>c) Benefit from both price variation and dividend</li> <li>d) None of these</li> </ul>		
Q 7	<p>Which of the following can be a criterion for the acceptance of a project?</p> <ul style="list-style-type: none"> <li>a) The Profitability Index should be greater than unity</li> <li>b) The Internal Rate of Return should be greater than the cost of capital.</li> <li>c) The Net Present Value should be greater than zero</li> <li>d) All of the above.</li> </ul>	<b>2</b>	<b>CO2</b>
Q 8	<p>Which of the following is the term that describes the amount of time taken for a capital budgeting project to recover its initial investment?</p> <ul style="list-style-type: none"> <li>a) Investment period</li> <li>b) Redemption period</li> <li>c) Payback period</li> <li>d) Maturity period</li> </ul>	<b>2</b>	<b>CO3</b>
Q 9	<p>Which of the following decisions affects the size of assets, the profitability and competitiveness of a firm?</p> <ul style="list-style-type: none"> <li>a) Dividend decision</li> <li>b) Working capital decision</li> <li>c) Capital Budgeting decision</li> <li>d) None of the above</li> </ul>	<b>2</b>	<b>CO1</b>
Q 10	<p>Which of the following factors affecting the cost of capital can be controlled by the firm?</p> <ul style="list-style-type: none"> <li>a) Tax rates</li> <li>b) Dividend policy</li> <li>c) Level of interest rates</li> <li>d) All of the above</li> </ul>	<b>2</b>	<b>CO1</b>

**SECTION B**  
**4Qx5M= 20 Marks**

Q 1	A company consider some factors before declaring dividend. Point out any four factors which affects a company dividend policy.	<b>5</b>	<b>CO4</b>
Q 2	A company issued 10,000 , 10% Debenture of Rs.100 each at a premium of 10% for 5 years. The debentures will be redeem on maturity. Compute the cost of debentures assuming 35% as tax rate.	<b>5</b>	<b>CO1</b>
Q 3	What are the steps involved in capital budgeting?	<b>5</b>	<b>CO3</b>
Q 4	If R Energy is issuing preferred stock at Rs.100 per share, with a stated dividend of Rs.12 per and a floatation cost of 3%, then calculate the cost of preference share.	<b>5</b>	<b>CO1</b>

**SECTION-C**  
**3Qx10M=30 Marks**

Q 1	ABC Ltd. is evaluating the purchase of a new machinery with a depreciable base of Rs.1,00,000; expected economic life of 4 years and change in earning before tax and depreciation of Rs.45,000 in year 1, Rs.30,000 in year 2, Rs.25,000 in year 3 and Rs.35,000 in year 4. Assume straight line depreciation and a 20% tax rate. You are required to compute relevant cash flows.	<b>10</b>	<b>CO1</b>
Q 2	Explain the term capital structure and capital structure decision? How it is relevant in maximizing the value of firm?	<b>10</b>	<b>CO2</b>
Q 3	Describe the features/characteristics of bonds/debenture?	<b>10</b>	<b>CO4</b>

**SECTION-D**  
**2Qx15M= 30 Marks**

Q 1	AB Ltd belong to a risk class for which the capitalisation rate is 10%. It currently has outstanding 10,000 shares selling at Rs.100 each. The firm is contemplating the declaration of dividend of Rs.5 per share at the end of current financial year. It expect to have a net income of Rs.1,00,000 and has a proposal for making new investment of Rs.2,00,000. Calculate the value of the firm when e) Dividend are not paid ii) Dividend are paid	<b>15</b>	<b>CO2</b>																												
Q 2	<p>Lockwood Ltd want to replace its old machine. Two models A and B available at the same cost of Rs. 5 lakh each. Salvage value of old machine is 1 lakh. The utilities of existing machine can be used if the company purchase model A and additional cost of utility will be Rs. 1 lakh in this case. If Company purchase B then new utilities will cost Rs. 2 lakh. The salvage value of old utility will be 0.20 lakh. The earning after taxation is expected to be</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Year</th> <th>Cash Flow of A</th> <th>Cash Flow of B</th> <th>PV Factor @15%</th> </tr> </thead> <tbody> <tr> <td>1</td> <td style="text-align: right;">1,00,000</td> <td style="text-align: right;">2,00,000</td> <td style="text-align: center;">0.870</td> </tr> <tr> <td>2</td> <td style="text-align: right;">1,50,000</td> <td style="text-align: right;">2,10,000</td> <td style="text-align: center;">0.756</td> </tr> <tr> <td>3</td> <td style="text-align: right;">1,80,000</td> <td style="text-align: right;">1,80,000</td> <td style="text-align: center;">0.658</td> </tr> <tr> <td>4</td> <td style="text-align: right;">2,00,000</td> <td style="text-align: right;">1,70,000</td> <td style="text-align: center;">0.572</td> </tr> <tr> <td>5</td> <td style="text-align: right;">1,70,000</td> <td style="text-align: right;">40,000</td> <td style="text-align: center;">0.497</td> </tr> <tr> <td>Salvage value at end of year 5</td> <td style="text-align: right;">50,000</td> <td style="text-align: right;">60,000</td> <td></td> </tr> </tbody> </table> <p>The targeted return on capital is 15%. Compute the Net Present value for the two machines.</p>	Year	Cash Flow of A	Cash Flow of B	PV Factor @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	Salvage value at end of year 5	50,000	60,000		<b>15</b>	<b>CO4</b>
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