

Name:

Enrolment No:



UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, December 2019

Course: Money and the Firm
Program: B.Com (Hons) BMI
Course code: FINC2020

Semester: III
Time: 03 Hours
Max. Marks: 100

Instructions: “Section A” is for 20 Marks. Attempt all parts of question 1, each part carries 2 marks. “Section B” is for 20 Marks. Attempt all questions from Section B, each question carries 10 Marks. “Section C” is for 30 Marks. Attempt all questions from Section C, each question carries 15 Marks. “Section D” is for 30 Marks. Attempt all questions from Section D, each question carries 15 Marks.

SECTION A

(20 Marks)

Q1. (i)	When the items of inventory are classified according to value of usage, the technique is known as: a) XYZ Analysis b) ABC Analysis c) M-M Approach d) None of the Above	CO 1 2 Marks
(ii)	If DOL is 1.24 and DFL is 1.99, DCL would be: a) 2.14 b) 2.18 c) 2.31 d) 2.47	CO 1 2 Marks
(iii)	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	CO 1 2 Marks
(iv)	Internal sources of finance do not include: a) Better management of working capital b) Ordinary shares c) Retained Earnings d) Trade Creditors	CO 1 2 Marks
(v)	The terms of credit given to a customer are expressed as “3/15 net 60”. The rate of discount offered here is: a) 15% b) 60% c) 3% d) None of the Above	CO 1 2 Marks
(vi)	External Sources of finance do not include: a) Debentures b) Retained Earnings c) Overdrafts	CO 1 2 Marks

	d) Leasing	
(vii)	To achieve wealth maximization, the finance manager has to take careful decision in respect of: a) Investment b) Financing c) Dividend d) All of the Above	CO 1 2 Marks
(viii)	Financial Leverage is calculated as: a) EBIT / Contribution b) EBIT / EBT c) EBIT / Sales d) EBIT / Variable Cost	CO 1 2 Marks
(ix)	Capital Budgeting is done for: a) Evaluating short term investment decisions b) Evaluating medium term investment decisions c) Evaluating long term investment decisions d) None of the Above	CO 1 2 Marks
(x)	Working Capital is defined as: a) Excess of Current Assets over Current Liabilities b) Excess of Current Liabilities over Current Assets c) Excess of Fixed Assets over Long Term Liabilities d) None of the Above	CO 1 2 Marks
SECTION B (20 Marks)		
Q2.	Management of Working Capital is an essential task of the finance manager. Discuss the importance of working capital Management.	CO 2 10 Marks
Q3.	The Dividend Policy of a Company has implications on its Financing decisions. Discuss & analyze the effect of a firm's Dividend Policy on its market valuation.	CO 2 10 Marks
SECTION-C (30 Marks)		
Q4.	Z Limited is considering the installation of a new project costing Rs 80,00,000. Expected annual sales revenue from the project is Rs 90,00,000 and its variable costs are 60 percent of sales. Expected annual fixed cost other than interest is Rs 10,00,000. Corporate tax rate is 30 percent. The Company wants to arrange the funds through issuing 4,00,000 equity shares of Rs 10 each and 12 percent debentures of Rs 40,00,000. You are required to calculate the Operating, Financial and Combined leverages and Earnings per share (EPS).	CO 3 15 Marks

Q5.

Lockwood 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 of)		
	A	B	P.V. Factor @ 15%
1	1,00,000	2,00,000	0.87
2	1,50,000	2,10,000	0.76
3	1,80,000	1,80,000	0.66
4	2,00,000	1,70,000	0.57
5	1,70,000	40,000	0.50
Salvage Value at the end of Year 5	50,000	60,000	

The targeted return on capital is 15%. You are required to

- (i) Compute, for the two machines separately, net present value.
- (ii) Advice which of the machines is to be selected?

**CO 3
15 Marks**

SECTION-D

(30 Marks)

Q6.

Prepare monthly cash budget for six months beginning from April 2017 on the basis of the following information: -

- (i) Estimated monthly sales are as follows: -

	Rs.		Rs.
January	1,00,000	June	80,000
February	1,20,000	July	1,00,000
March	1,40,000	August	80,000
April	80,000	September	60,000
May	60,000	October	1,00,000

**CO 4
15 Marks**

(ii) Wages and Salaries are estimated to be payable as follows:

	Rs.		Rs.
April	9,000	July	10,000
May	8,000	August	9,000
June	10,000	September	9,000

(iii) Of the sales, 80% is on credit and 20% for cash. 75% of the credit sales are collected within one month and the balance in two months. There are no bad debt losses.

(iv) Purchases amount to 80% of sales and are made on credit and paid for in the month preceding the sales.

(v) The firm is to make on advance payment of tax of Rs 5,000 in July ,2017.

(vi) The Firm had a cash balance of Rs 20,000 on April 1,2017.

Q7.

The following information is collected from the Annual Reports of J Ltd.

Profit before Tax	Rs 2.50 Crores
Tax Rate	40 per cent
Retention Ratio	40 per cent
Number of Outstanding Shares	50,00,000
Equity Capitalization Rate	12 per cent
Rate of Return on Investment	15 Per cent

What should be the Market Price per Share according to Gordon's Model of Dividend?

**CO 4
15 Marks**