

Name:

Enrolment No:



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

Course: FINANCIAL ANALYTICS

Program: MBA(BA)

Course code: FINC 8008

Instructions:

Semester: 3RD

Time: 03 Hours

Max. Marks: 100

SECTION A

(20 Marks)

		Marks	
Q.1.	A firm has a higher quick (or acid test) ratio than the industry average, which implies?	2	3
Q.2.	If the interest rate on debt is higher than ROA, then a firm will _____ by increasing the use of debt in the capital structure.	2	2
Q.3.	If a firm has a positive tax rate, a positive ROA, and the interest rate on debt is the same as ROA, then ROA will be _____.	2	1
Q.4.	What is a creditor's objective in performing an analysis of financial statements?	2	1
Q.5.	What does an increasing collection period for accounts receivable suggest about a firm's credit policy?	2	1
Q.6.	A firm has a higher asset turnover ratio than the industry average, which implies?	2	2
Q.7.	A firm has a market to book value ratio that is equivalent to the industry average and an ROE that is less than the industry average, which implies?	2	2
Q.8.	What do the asset turnover ratios measure?	2	2
Q.9.	Identify the situations which can lead to cash flow problems.	2	1
Q.10.	A firm has a lower quick (or acid test) ratio than the industry average, which implies?	2	2

SECTION B

(20 Marks)

Attempt any 2 out of 3 questions

Q.11.	Two securities are plotted around the SML. Security A has a high expected return derived from fundamental analysis and security B has a low expected return. What will be their position on SML and according to you which security is undervalued.	10	4
Q.12.	Fraud can be categorized by a number of different methods. Comment.	10	3
Q.13.	Assume that the expected return on portfolio M is 13%, with a standard deviation of 25%, and that RF is 7%. Comment on the slope of the CML.	10	4

SECTION-C

(30 Marks)

Attempt any 6 out of 7 questions

Q.14.	Comment on the beta of a security of 1.5.	5	2
Q.15.	V ltd has a target ROE of 20%. The debt equity ratio of the company is 1.2 and its pre-tax cost of debt is 12%. What ROI should the company plan to earn if its tax rate is 35%?	5	1
Q.16.	Classify the stocks for making investment strategies.	5	3

Q.17.	Stock A has a beta of 1.3 and an expected return of 20%. Stock B has a beta of 0.8 and an expected return of 14%. Assume these stocks are correctly priced. Based on CAPM what is the expected return on the market?	5	4
Q.18.	A business can lose a significant amount of assets due to fraud. At an extreme level, the effects of fraud can even shut down a company. Consequently, a business owner should make ongoing efforts to create an environment in which fraud is less likely to arise. There are a number of factors that make it more likely that fraud will occur or is occurring in a business. Elucidate fraud risk factors.	5	3
Q.19.	Compare and contrast P score and F score.	5	4
Q.20.	Explicate general and specific risk of a scrip.	5	2
SECTION-D (30 Marks)			
	In the year 1985, Kenneth Lay merged the company Houston Natural Gas and InterNorth to form Enron. During the period of 1990s, Enron became the seventhlargest company on the Fortune 500 and the sixth-largest energy company in the world. However, as more and more people chose Enron as a good investment, no one thought it could go into bankruptcy. By November 2001, the company's stock crashed from 90 USD a share to 0.02 USD a share. It was a nightmare for all the investors and creditors of Enron. Its founder Ken Lay and CEO Jeff Skilling were responsible for most of the crime which includes that they lie to the stockholders about the real financial situation of Enron, though they knew that Enron was not doing well, they used "off balance sheet entity" to get rid of the big debts of Enron, and they allowed external auditors to do some internal auditor's work which led to Enron's weak internal control. This huge fraud scandal cause thousands of jobs cuts and more than \$2 billion in employee pension plan losses. At the same time, the scandal also led to the dissolution of Arthur Andersen that was one of the five largest audit and accountancy partnerships in the world at that time.		
Q.21.	Analyze the reasons contributed to collapse of Enron using Fraud Diamond Theory.	15	3,4
Q.22.	a) Highlight the accounting method due to which company collapsed. b) Enron's collapse and the financial havoc it wreaked on its shareholders and employees led to new regulations and legislation to promote the accuracy of financial reporting for publicly held companies. Comment on the change in regulation after the scandal.	15	3,4