

Name:	
Enrolment No:	

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
Online End Semester Examination, May 2020

Course: Financial Management

Semester: 1ST

Program: BBA (ABD + FB&E)

Time: 03 Hours

Course code: FINC1001

Max. Marks: 100

Instructions: Attempt all the questions

SECTION A

(30 Marks)

1. Each Question will carry 5 Marks

2. Instruction: Complete the statement / Select the correct answer(s)

		Marks	
Q.1.	Growth firms which are more concerned about the firm's rate of growth than they are about maintaining constant dividends will adopt a (n) _____ dividend policy. A. Special. B. Liquidating. C. Annual. D. Residual. E. Extra.	5	CO1
Q.2.	You purchased 200 shares of preferred stock on January 1, 2002 for \$42.27 per share. The stock pays an annual dividend of \$7 per share. On December 31, 2002 the market price is \$46.88 per share. What is your total dollar return for the year? A. \$478 B. \$922 C. \$1,400 D. \$2,322 E. \$2,678	5	CO1
Q.3.	Which of the following is the best definition for the concept of risk premium? A. The excess return required from an investment in a risky asset over a risk-free investment. B. Market in which security prices reflect available information. C. A symmetric, bell-shaped frequency distribution that can be defined by its mean and standard deviation. D. The average compound return earned per year over a multi-year period. E. The hypothesis is that actual capital markets are efficient.	5	CO1
Q.4.	What is the expected return for the following stock?	5	CO1

	State	Probability	Return			
	Average	.55	.20			
	Recession	.20	.10			
	Depression	.25	-.20			
	A. 0.055 B. 0.080 C. 0.095 D. 0.105 E. 0.110					
Q.5.	The model that attempts to determine the optimal order size when restocking inventory is called the: A. MRP model. B. ABC approach. C. JIT system. D. EOQ model. E. Safety stock model.			5	CO1	
Q.6.	You sell 7,000 units of an item each year. The carrying cost per unit is \$1.10 and the fixed costs per order are \$75. What is the economic order quantity? A. 691units B. 713units C. 859units D. 977units E. 1,025 units			5	CO1	
SECTION B (50 Marks) 1. Each question will carry 10 marks 2. Instruction: Write short / brief notes						
Q.7.	What is systematic and unsystematic risk? Discuss in detail CAPM model with equation.			10	CO2	
Q.8.	Discuss in detail M&M theory of capital structure with assumptions and diagram.			10	CO2	
Q.9.	You wish to make a substantial down payment on a lake cottage and you currently have \$15,725 invested at an annual rate of 2.50%. How much money will be in the account in 3.5 years if it continues to earn at its present rate?(Finding Future value)			10	CO2	

Q.10.	<p>a). The credit decision usually includes riskier customers. The credit decision should adjust for this by:</p> <p>A. determining the probability that customers will pay, reducing the expected cash flow. B. discounting the net cash flows at a higher discount rate. C. discounting the cash inflow at a higher discount rate. D. delaying collections on these customers. E. speeding up deliveries to riskier customers.</p> <p>Justify your answer.</p> <p>b) . The three components of credit policy are:</p> <p>A. collection policy, credit analysis, and interest rate determination. B. collection policy, credit analysis, and terms of the sale. C. collection policy, interest rate determination, and repayment analysis. D. credit analysis, repayment analysis, and terms of the sale. E. interest rate determination, repayment analysis and terms of sale.</p> <p>Explain the same.</p>	10	CO3
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Q.11	<p>StarrKnight Corporation's statement of financial position and Income Statement as shown below:</p> <table border="1" data-bbox="201 972 1073 1835"> <thead> <tr> <th colspan="3" style="text-align: left;">BALANCE SHEET (in thousands of dollars)</th> </tr> <tr> <th style="text-align: left;">ASSETS</th> <th style="text-align: center;">2018</th> <th style="text-align: center;">2017</th> </tr> </thead> <tbody> <tr> <td colspan="3">Current Assets</td> </tr> <tr> <td style="padding-left: 20px;">Cash</td> <td style="text-align: center;">21,113</td> <td style="text-align: center;">19,930</td> </tr> <tr> <td style="padding-left: 20px;">Receivables</td> <td style="text-align: center;">7,336</td> <td style="text-align: center;">3,275</td> </tr> <tr> <td style="padding-left: 20px;">Inventories</td> <td style="text-align: center;">25,135</td> <td style="text-align: center;">24,270</td> </tr> <tr> <td style="padding-left: 20px;">Total</td> <td style="text-align: center;">53,584</td> <td style="text-align: center;">47,475</td> </tr> <tr> <td>Fixed Assets</td> <td style="text-align: center;">25,767</td> <td style="text-align: center;">19,720</td> </tr> <tr> <td>Total Assets</td> <td style="text-align: center;">79,351</td> <td style="text-align: center;">67,195</td> </tr> <tr> <td colspan="3">LIABILITIES</td> </tr> <tr> <td colspan="3">Current Liabilities</td> </tr> <tr> <td style="padding-left: 20px;">Accounts Payable</td> <td style="text-align: center;">9,493</td> <td style="text-align: center;">7,273</td> </tr> </tbody> </table>	BALANCE SHEET (in thousands of dollars)			ASSETS	2018	2017	Current Assets			Cash	21,113	19,930	Receivables	7,336	3,275	Inventories	25,135	24,270	Total	53,584	47,475	Fixed Assets	25,767	19,720	Total Assets	79,351	67,195	LIABILITIES			Current Liabilities			Accounts Payable	9,493	7,273	10	CO3
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Notes Payable	429	416
Other	3,990	3,180
Total	13,912	10,869
Long-term Liabilities	7,796	6,088
Stockholder's Equity	57,643	50,238
Total Liabilities and Equity	79,351	67,195

NET INCOME (in thousands of dollars)		
	2018	2017
Net Sales	113,260	96,695
Cost of Goods Sold	75,586	65,039
Other Operating Expenses	25,832	26,208
Operating Profit	11,842	5,448
Other Income	7,061	6,280
Interest	658	520
Tax	3,924	3,362
Net Profit	14,321	7,846
Dividends	460	441
Retained Earnings	13,861	7,405

(all sales and purchases are credit)

what is inventory turnover ratio for 2018 is (use average inventory)?

SECTION-C (20 Marks) 1. Each Question carries 20 Marks. 2. Instruction: Write long answer.			
Q.12.	Rogue drafting balance sheet disclose information as follows. The value of common stock is \$10,000, retained earnings is \$7,000, total common equity equals \$17,000, preferred stock has a value of \$3,000, and long-term debt totals \$15,000. If the cost of debt is 8.00%, preferred stock has a cost of 10.00%, common stock has a cost of 12.00%. If the firm has a corporate tax rate of 30%, calculate the firm's WACC (weighted average cost of capital) adjusted for taxes.	20	CO4