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JAYPEE UNIVERSITY OF INFORMATION TECHNOLOGY, WAKNAGHAT

T3 EXAMINATION- May, 2019

B.Tech IV Semester (All Branches)

COURSE CODE: 10B11PD411 **MAX. MARKS: 35**

COURSE NAME: Financial Management **MAX. TIME: 2 Hours**

COURSE CREDITS: 3

Note: All questions are compulsory. Carrying of mobile phone during examinations will be treated as case of unfair means. Make suitable assumptions wherever necessary.

Q1. Calculate the Weighted average cost of capital using market value weights from the following information.

Source of Finance	Book Value Rs(million)	Market Value Rs(million)	Additional Information
Equity Share capital	30	60	The current market price of an equity share is Rs. 150. Expected dividend next year is Rs.12 per share and it is expected to grow at 7% forever.
Reserves	10	-	
11% Preference capital	20	24	11% preference share of face value Rs.100 was sold at Rs.120 to be redeemed 10 years later at par.
16% Debentures	40	36	Rs.1000 face value debenture to be redeemed in 15 years at 1050 was sold at par.

(5 Marks) CO4

Q2.a) What is the significance of cost of capital in financial decision making?

b) How does the NOI approach to capital structure establish the irrelevance of capital structure to the value of the firm? **(2 + 3 Marks) CO4**

Q3. A company is considering a new investment of Rs2000000. It can get these funds either from only equity shares or a combination of Rs 10 lakh equity and Rs 5 lakh debt and Rs5 lakh 14% preference shares. The equity share is priced at Rs10 and the preference share at Rs100. The debt has an interest of 15% associated with it. Calculate the indifference point between the two alternative plans. Give the range of EBIT over which debt would be preferred.

(3+1 Marks) CO4

Q4. a) Calculate the Modified Internal Rate of Return of a project having the following cash flow stream at a discount rate of 10% and suggest whether the project should be accepted or rejected?

Year(s)	0	1	2	3-6
Cash flow (Rs.)	-10,0000	60,000	-50,000	50,000
Discount rate	10%			

b) Should IRR have been used for evaluating this project ? Why/why not?

(4+2 Marks) CO5

Q5. A company is planning to purchase a machine costing Rs5000000 to produce cardboard sheets. The expected sales for the next five years are as given in the table below.

Year(s)	1	2	3	4	5
Production and sales (No. of Sheets)	1,00,000	1,30,000	1,50,000	1,70,000	2,00,000
Variable cost (Rs.) (per sheet)	20	20	20	20	20
Selling Price (Rs.) (per sheet)	50	50	50	50	50
Fixed cost (Rs.) (annual)	2,00,000	2,00,000	2,00,000	2,00,000	2,00,000

The tax rate applicable to the company is 30%. Estimate the cashflows of the project assuming that the machine has no salvage value and is depreciated on straight line method. Calculate the NPV of the project taking the cost of capital as 12%.

(5 Marks)CO5

Q6. a) What should be the dividend policy(s) of the company in the following conditions under Walter's model? The EPS is Rs20, the rate of return on investment is 15% and the cost of capital is 12%. Calculate the value of the firm for zero dividends, 50% dividend and 100% dividend.

b) List the important assumptions of Walter's and Gordon's models of dividend.

(3+2 Marks)CO7

Q7. Answer the following briefly (max 50 words):

a) What is the impact of multi period compounding?
b) If the discount rate increases does the present value of an annuity increase or decrease? Show with an example.
c) Explain two limitations of ratio analysis.
d) Is a high inventory turnover ratio always good for the organization? Explain briefly.
e) How does the MM Hypothesis establish irrelevance of capital structure?

(5 Marks) CO2