<table>
<tr><td colspan="4">ST. PHILOMENA’S COLLEGE (AUTONOMOUS), MYSORE</td></tr>
<tr><td colspan="4">PG DEPARTMENT OF COMMERCE</td></tr>
<tr><td colspan="4">QUESTION BANK (Revised LOCF - 2021)</td></tr>
<tr><td colspan="4">FIRST YEAR- FIRST SEMESTER (2021 Batch)</td></tr>
<tr><td colspan="4">QP Code: 83123
COURSE TITLE (PAPER TITLE): FINANCIAL MANAGEMENT</td></tr>
<tr><th>UNIT</th><th>Sl. No.</th><th>QUESTIONS</th><th>MARKS</th></tr>
<tr><td>1</td><td>1.</td><td>Define financial management. Explain the importance of financial management.</td><td>5</td></tr>
<tr><td>1</td><td>2.</td><td>Explain the Traditional approach of financial management</td><td>5</td></tr>
<tr><td>1</td><td>3.</td><td>Write a note on investment decision</td><td>5</td></tr>
<tr><td>1</td><td>4.</td><td>Write a short note on financing decision</td><td>5</td></tr>
<tr><td>1</td><td>5.</td><td>Write a note on dividend decision</td><td>5</td></tr>
<tr><td>1</td><td>6.</td><td>Write a note on wealth maximization</td><td>5</td></tr>
<tr><td>1</td><td>7.</td><td>State the limitations of Profit Maximization.</td><td>5</td></tr>
<tr><td>1</td><td>8.</td><td>State the arguments in favor of profit maximization.</td><td>5</td></tr>
<tr><td>1</td><td>9.</td><td>State the arguments in favor of wealth maximization…</td><td>5</td></tr>
<tr><td>1</td><td>10.</td><td>Explain the criticism against the concept of wealth maximization.</td><td>5</td></tr>
<tr><td>1</td><td>11.</td><td>What are the aims of finance function?</td><td>5</td></tr>
<tr><td>1</td><td>12.</td><td>Define and explain the concept of financial management</td><td>5</td></tr>
<tr><td>1</td><td>13.</td><td>Explain the scope of financial management</td><td>5</td></tr>
<tr><td>1</td><td>14.</td><td>The following information is related to X limited:
<table>
<tr><th>Particulars</th><th>1/4/2019</th><th>31/3/2020</th></tr>
<tr><td>Sundry debtors</td><td>40,000</td><td>60,000</td></tr>
<tr><td>Sundry creditors</td><td>80,000</td><td>40,000</td></tr>
<tr><td>Bill’s receivable</td><td>30,000</td><td>50,000</td></tr>
<tr><td>Bills payable</td><td>16,000</td><td>24,000</td></tr>
</table>

Total sales during the year 2019-2020 is Rs 8,90,000
Total purchase during the year 2019-2020 is Rs 6,50,000
Cash sales is Rs 2,33,000

You are required to Calculate:
a) Debtors’ turnover ratio
b) Creditors turnover ratio</td><td></td></tr>
<tr><td>2</td><td>15.</td><td>Calculate Payback Period from the following and select the best one
<table>
<tr><th>Year</th><th>Project A</th><th>Project B</th></tr>
<tr><td>0</td><td>(10,00,000)</td><td>(10,00,000)</td></tr>
<tr><td>1</td><td>3,00,000</td><td>5,00,000</td></tr>
<tr><td>2</td><td>2,50,000</td><td>4,00,000</td></tr>
<tr><td>3</td><td>2,50,000</td><td>4,00,000</td></tr>
<tr><td>4</td><td>2,00,000</td><td>3,00,000</td></tr>
<tr><td>5</td><td>2,00,000</td><td>3,00,000</td></tr>
</table></td><td>5</td></tr>
<tr><td>2</td><td>16.</td><td>A project involves a cash flow outlay of Rs 6,00,000 and generates cash flow of Rs 1,00,000, Rs 1,50,000, Rs 2,50,000, Rs 2,00,000. Calculate Payback Period.</td><td>5</td></tr>
</table>

<table>
<tr><td>2</td><td>17.</td><td>Suppose a project needs an outlay of 7,00,000 which generates cash flows Rs 1,50,000, Rs 1,80,000, Rs 2,00,000, Rs 2,50,000 and Rs 3,00,000. Calculate Payback Period.</td><td>5</td></tr>
<tr><td>2</td><td>18.</td><td>A project costs Rs 5,00,000 and yields annually a profit of Rs 80,000 after depreciation at 12% per annum but before tax of 50%. Calculate the Payback Period.</td><td>5</td></tr>
<tr><td>2</td><td>19.</td><td>A limited is considering two investment projects each of which requires a cash outlay of 80 million. Company estimates that the cost of capital is 10% and that the investment will produce the following after tax cash flows in millions of rupees.
<table>
<tr><th>Year</th><th>Project A</th><th>Project B</th></tr>
<tr><td>1</td><td>5</td><td>20</td></tr>
<tr><td>2</td><td>10</td><td>10</td></tr>
<tr><td>3</td><td>15</td><td>8</td></tr>
<tr><td>4</td><td>20</td><td>6</td></tr>
</table>
Calculate Discounted Payback Period of each project.</td><td>5</td></tr>
<tr><td>2</td><td>20.</td><td>Explain the importance of capital budgeting</td><td>5</td></tr>
<tr><td>2</td><td>21.</td><td>Explain the process of capital budgeting.</td><td>5</td></tr>
<tr><td>2</td><td>22.</td><td>Explain the features of ideal capital budgeting techniques.</td><td>5</td></tr>
<tr><td>2</td><td>23.</td><td>Write a note on NPV</td><td>5</td></tr>
<tr><td>2</td><td>24.</td><td>Write a note on calculation of IRR</td><td>5</td></tr>
<tr><td>2</td><td>25.</td><td>Explain the merits and demerits of Payback period</td><td>5</td></tr>
<tr><td>2</td><td>26.</td><td>Explain the merits and demerits of NPV</td><td>5</td></tr>
<tr><td>2</td><td>27.</td><td>Explain the merits and demerits of PI</td><td>5</td></tr>
<tr><td>2</td><td>28.</td><td>Explain the merits and demerits of IRR</td><td>5</td></tr>
<tr><td>3</td><td>29.</td><td>A company issues Rs 10,00,000, 10% redeemable debentures at a discount of 5%. The cost rotation amounts to Rs 30,000. The debentures are redeemable after five years. Calculate the before tax cost of debenture.</td><td>5</td></tr>
<tr><td>3</td><td>30.</td><td>Venus limited issued 10,000, 9% debentures of Rs 100 each at premium of 5%, the maturity period is 5 years and the tax is 50%. Compute the cost of debentures if the debentures are redeemable at par.</td><td>5</td></tr>
<tr><td>3</td><td>31.</td><td>A company issues 10% debentures at par for a total value of Rs 10,00,000. The debentures are redeemable after 10 years at a premium of 10%. The tax rate is 40%. Compute the cost of debentures before tax and after tax.</td><td>5</td></tr>
<tr><td>3</td><td>32.</td><td>A company issues Rs 10,00,000, 13% debentures at discount of 5%, the debentures are redeemable after 5 years at a premium of 5%. Calculate before tax and after- tax cost of debt if the tax rate is 50%.</td><td>5</td></tr>
<tr><td>3</td><td>33.</td><td>Assuming that a firm pays tax at 50%. Compute the after- tax cost of debt capital in the following cases:
a. A perpetual bond sold at par coupon rate of interest being 7% issued at 100
b. A 10 year, 8% Rs 1,000 per bond sold at Rs 950 less 4% underwriting commission.</td><td>5</td></tr>
<tr><td>3</td><td>34.</td><td>A company issues 10,000, 10% preference shares of Rs 100 each. Cost of issue is Rs 2 per share. Calculate the cost of preference share capital if these shares are issued a) at par b) at a premium of 10%.</td><td>5</td></tr>
<tr><td>3</td><td>35.</td><td>A company issues 1,00,000, 10% preference shares of Rs 10 each. Cost of issue is Rs 2 per share. Calculate the cost of preference share capital if these shares are issued
a) at discount of 10%
b) at a premium of 10%</td><td>5</td></tr>
</table>

3	36.	A company issues 10,000, 10% preference shares of Rs 100 each redeemable after 10 years at a premium of 5%. The cost of issue is Rs 2 per share. Calculate the cost of Preference share capital.	5
3	37.	A company issues one crore equity shares of Rs 100 each at a premium of 10%. The company is been consistently paying dividend of 18% for the past 5 years. It is expected to maintain the dividend in future also a. Compute the cost of equity of the company. b. What will be the cost of capital if the market price of the share is 200?	5
3	38.	Anand limited offers public subscription equity share of Rs 10 each at a premium of 10%. Under writing commission 5% on issue price, the equity shareholders expect the dividend of 15%. a.) Calculate the cost of equity capital b.) Calculate the cost of equity capital if the market price of the share is Rs 20.	5
3	39.	The shares of the company are selling at Rs 40 per share and it had paid a dividend of Rs 4 per share last year. The investors market expects a growth rate of 5% per year. a) Compute the company's equity cost of capital. b) If the anticipated growth rate is 7% per annum. Calculate the indicated market price per share.	5
3	40.	A company's shares are quoted in the market Rs 40 and the expected dividend for the next year is Rs 2 per share. Thereafter the investor expects a growth rate of 5% per annum. a) Calculate cost of equity b) Calculate the market price per share if the expected growth rate is 6%	5
3	41.	A company's shares are quoted in the market Rs 400 and the expected dividend for the next year is Rs 20 per share. Thereafter the investor expects a growth rate of 5% per annum. a.) Calculate cost of equity b.) Calculate market price per share if dividend of Rs 20 is maintained, the cost. of equity is 9% and expected growth rate in dividend is 6%.	5
3	42.	Write a note on Earning Price method in calculation Cost of Equity.	5
3	43.	A firm is considering an expenditure of Rs 60,00,000 for expanding its operation. The relevant information is as follows: a) Number of existing equity share is Rs 10,00,000 b) Market value of existing share is Rs 60 c) Net earnings are Rs 90,00,000 Compute the cost of existing equity share capital and of new equity capital assuming that new shares will be issued at price of Rs 52 per share and the cost of new issue will be Rs 2 per share	5
3	44.	Vijay limited wants to raise Rs 50,00,000 by issue of new equity shares. The relevant information is given below: a) Number of existing equity shares - 10,00,000 b) Profit after tax – 60,00,000 c) Market value of existing shares – 4,00,00,000 Compute the cost of existing equity capital Compute the cost of new equity share capital, the shares are issued at the price of Rs 32 per share and the issue expense is Rs 2 per share.	5
3	45.	Explain the meaning and importance of cost of capital.	5
3	46.	Explain the objectives of capital structure.	5
3	47.	What are dividends? Explain the type of dividends.	5
3	48.	Explain the criticism against MM's model of dividend policy.	5

4	49.	From the following information, calculate minimum stock level, maximum stock level and re-ordering level: Maximum consumption: 200 units per day Minimum consumption: 150 units per day Normal consumption: 160 units per day Re-order period: 10-15 days Re-order quantity: 1,600 units Normal re-order period: 12 days	5
4	50.	From the following information, find out economic order quantity, a. Annual Usage, 10,000 units. b. Cost of placing and receiving one order Rs.50. c. Cost of materials per unit Rs.25. d. Annual carrying cost of one unit: 10% of inventory value.	5
4	51.	Following information is given about materials. a. Annual usage = Rs.2,00,000. b. Cost of placing and receiving order: Rs.80. c. Annual carrying cost: 10% of inventory value. d. Find out the economic order quantity.	5
4	52.	The annual demand for a product is 6,400 units. The unit cost is Rs.6 and inventory carrying cost per unit per annum is 25% of the average inventory cost. If the cost of procurement is Rs.75, determine: a) Economic order quantity (EOQ). b) Number of orders per annum; and c) Time between two consecutive orders.	5
4	53.	Gowtham Ltd. Produces a product which has a monthly demand of 4,000 units. The product requires a component X which is purchased at Rs.20. For every finished product, one unit of the component is required. The ordering cost is Rs.120 per order and holding cost is 10% p.a. You are required to calculate: i) Economic order quantity. ii) If the minimum lot size to be supplied is 4,000 units, what is the extra cost, the company has to incur?	5
4	54.	Explain the meaning and significance of working capital.	5
4	55.	Explain the sources of working capital.	5
4	56.	Explain the objectives of receivables management.	
4	57.	Explain the modes of payment.	
4	58.	Explain the credit policy variables.	
4	59.	Explain the motives for holding cash.	5
4	60.	Write a note on Baumol's model of cash management.	5
4	61.	Write a note on Miller and Orr model of cash management.	5
4	62.	Briefly explain ABC analysis.	5
4	63.	Write a note EOQ.	5
1	64.	Explain how wealth maximization is superior than profit maximization.	10
1	65.	Explain the objectives of financial management.	10
1	66.	"Financing decisions should be evaluated in terms of returns and risks." Elucidate the statement.	10
1	67.	"Investment, financing and dividend decisions are interring related."- Comment.	10

<table>
<tr><td>1</td><td>68.</td><td>Discuss in detail the functions of financial management.</td><td>10</td></tr>
<tr><td>1</td><td>69.</td><td>Explain the approaches to financial management.</td><td>10</td></tr>
<tr><td>1</td><td>70.</td><td>Discuss the significance of finance function.</td><td>10</td></tr>
<tr><td>1</td><td>71.</td><td>“Financial management has changed substantially its scope and complexity in recent decades.” Explain</td><td>10</td></tr>
<tr><td>1</td><td>72.</td><td>“The profit maximization is not an operationally feasible criterion”. Do you agree? Illustrate your views.</td><td>10</td></tr>
<tr><td>1</td><td>73.</td><td>Following is the balance sheet of A limited
<table>
<tr><th>Liabilities</th><th>Rs</th><th>Assets</th><th>Rs</th></tr>
<tr><td>Equity shares capital (Rs 10)</td><td>5,00,000</td><td>Freehold premises</td><td>4,50,000</td></tr>
<tr><td>10% pref. share capital</td><td>3,00,000</td><td>Plant and machinery</td><td>3,30,000</td></tr>
<tr><td>Reserve fund</td><td>1,20,000</td><td>Furniture</td><td>84,000</td></tr>
<tr><td>Profit & loss</td><td>55,000</td><td>Stock</td><td>2,30,000</td></tr>
<tr><td>15% debenture</td><td>2,40,000</td><td>Debtors</td><td>1,95,000</td></tr>
<tr><td>Bank overdraft</td><td>40,000</td><td>Bill’s receivable</td><td>45,000</td></tr>
<tr><td>Creditors</td><td>1,15,000</td><td>Marketable securities</td><td>50,000</td></tr>
<tr><td>Bills payable</td><td>35,000</td><td>Cash balance</td><td>20,000</td></tr>
<tr><td>Tax provision</td><td>50,000</td><td>Prepaid expenses</td><td>36,000</td></tr>
<tr><td></td><td></td><td>Preliminary expenses</td><td>15,000</td></tr>
<tr><td>Total</td><td>14,55,000</td><td></td><td>14,55,000</td></tr>
</table>
Total sales during the year are Rs 21,60,000 and Net profit after tax is Rs 3,00,000.
You are required to compute:
a) Current ratio
b) Acid test ratio
c) Proprietary ratio
d) Debt equity ratio
e) Fixed asset turnover ratio</td><td>10</td></tr>
<tr><td>1</td><td>74.</td><td>Following is the balance sheet of Mohan company limited as on 31/03/2019
<table>
<tr><th>Liability</th><th>Rs</th><th>Assets</th><th>Rs</th></tr>
<tr><td>Equity share capital</td><td>20,00,000</td><td>Land</td><td>12,00,000</td></tr>
<tr><td>Preference share capital</td><td>5,00,000</td><td>Building</td><td>15,00,000</td></tr>
<tr><td>Reserves & surplus</td><td>1,50,000</td><td>Plant</td><td>4,00,000</td></tr>
<tr><td>12% debenture</td><td>7,50,000</td><td>Investment</td><td>2,00,000</td></tr>
<tr><td>Sundry creditors</td><td>2,50,000</td><td>Inventories</td><td>1,50,000</td></tr>
<tr><td>Provision for tax</td><td>50,000</td><td>Debtors</td><td>2,00,000</td></tr>
<tr><td>Bank overdraft</td><td>50,000</td><td>Bill’s receivable</td><td>1,50,000</td></tr>
<tr><td>Bills payable</td><td>1,00,000</td><td>Cash</td><td>50,000</td></tr>
<tr><td></td><td></td><td>Preliminary exp</td><td>20,000</td></tr>
<tr><td></td><td>38,70,000</td><td></td><td>38,70,000</td></tr>
</table>
Net profit after tax for the year Rs 1,80,000. Total sales during the year Rs 80,00,000.
Calculate the following ratios:
a. Current ratio
b. Acid test ratio
c. Debt equity ratio
d. Fixed asset turnover ratio
e. Net profit ratio.</td><td>10</td></tr>
<tr><td>2</td><td>75.</td><td>Explain the different methods of capital budgeting.</td><td>10</td></tr>
</table>

2	76.	From the following information calculate the Net Present Value and Profitability index of the two projects and suggest which of the two projects to be accepted. Assuming a discount rate of 10%.	10

Particulars	Project X	Project Y
Initial investment	20,000	30,000
Estimated life	5 years	5 years
Scrap value	1,000	2,000

Profits before depreciation and after tax (cash flows)

Year	Project X	Project Y
1	5,000	20,000
2	10,000	10,000
3	10,000	5,000
4	3,000	3,000
5	2,000	2,000

2	77.	No project is acceptable unless the yield is 10% Cash inflows of a certain projects along with the cash outflows are given below:	10

Year	Outflows	Inflows
0	1,50,000	-
1	30,000	20,000
2	-	30,000
3	-	60, 000
4	-	80, 000
5	-	30, 000

Salvage value at the end of 5^{th} year is 40,000. Calculate NPV and Profitability Index.

2	78.	A company is considering investment in a project, the cost of which is 2,00,000. The project has an expected life of 5 years and 0 salvage value. The company uses straight line method of depreciation, the tax rate is 40%, the estimated earnings before depreciation and before tax from the project are:	10

Year	Earnings before depreciation & tax (Rs)	PV factor@10%
1	70,000	0.909
2	80,000	0.826
3	120,000	0.751
4	90,000	0.683
5	60,000	0.621

Calculate Net present value.

2	79.	Assume a discount rate of 10% used by company for calculating NPV. Calculate MIRR for the following project	10

Year	Cash flows
0	(1,00,000)
1	1,10,000
2	1,21,000
3	(1,33,100)

<table>
<tr><td>2</td><td>80.</td><td>Consider the following project, assume a discount rate of 10% used by the company for calculating NPV.
<table>
<tr><th>Year</th><th>Net cash flows (lakhs)</th></tr>
<tr><td>0</td><td>(100)</td></tr>
<tr><td>1</td><td>50</td></tr>
<tr><td>2</td><td>50</td></tr>
<tr><td>3</td><td>50</td></tr>
<tr><td>4</td><td>(10)</td></tr>
</table>
Calculate MIRR</td><td>10</td></tr>
<tr><td>2</td><td>81.</td><td>Find IRR for the following
<table>
<tr><th>Year</th><th>Cash flows</th></tr>
<tr><td>0</td><td>(1,00,000)</td></tr>
<tr><td>1</td><td>50,000</td></tr>
<tr><td>2</td><td>50,000</td></tr>
<tr><td>3</td><td>45,000</td></tr>
</table></td><td>10</td></tr>
<tr><td>2</td><td>82.</td><td>Project S has a cost of Rs 10,000 and is expected to produce benefits (cash flows) of Rs 3,000 per year for a period of 5 years. Calculate the projects NPV and IRR assuming cost of capital is 12%.</td><td>10</td></tr>
<tr><td>2</td><td>83.</td><td>The details of a firm whose cost of capital is 10% considering a project is given below:
<table>
<tr><th>Year</th><th>Project X</th></tr>
<tr><td>0</td><td>(70,000)</td></tr>
<tr><td>1</td><td>10,000</td></tr>
<tr><td>2</td><td>20,000</td></tr>
<tr><td>3</td><td>30,000</td></tr>
<tr><td>4</td><td>45,000</td></tr>
<tr><td>5</td><td>60,000</td></tr>
</table>
Compute NPV at 10% and IRR</td><td>10</td></tr>
<tr><td>2</td><td>84.</td><td>The details of a firm whose cost of capital is 10% considering a project is given below:
<table>
<tr><th>Year</th><th>Project Y</th></tr>
<tr><td>0</td><td>(70,000)</td></tr>
<tr><td>1</td><td>50,000</td></tr>
<tr><td>2</td><td>40,000</td></tr>
<tr><td>3</td><td>20,000</td></tr>
<tr><td>4</td><td>15,000</td></tr>
<tr><td>5</td><td>10,000</td></tr>
</table>
Compute NPV at 10% and IRR.</td><td>10</td></tr>
<tr><td>2</td><td>85.</td><td>A project requires an investment of Rs 5,00,000 and has a scrap value of Rs 20,000 after 5 years. It is expected to yield profits after depreciation and taxes during the five years amounting to Rs 40,000, Rs 60,000, Rs 70,000, Rs 50,000 and Rs 20,000.
Calculate:
a.) Average Rate of Return
b.) Return per unit of investment
c.) Return per average investment
d.) Average rate on Average investment.</td><td>10</td></tr>
</table>

2	86.	Calculate the Average rate of return and Average return on average investment for Project A and Project B from the following: Investments: Project A - 20,000 Project B - 30,000 Expected life: Project A - 4 years Project B - 5 years Projected Net Income (after interest, depreciation and tax). <table><tr><th>Year</th><th>Project A</th><th>Project B</th></tr><tr><td>1</td><td>2,000</td><td>3,000</td></tr><tr><td>2</td><td>1,500</td><td>3,000</td></tr><tr><td>3</td><td>1,500</td><td>2,000</td></tr><tr><td>4</td><td>1,000</td><td>1,000</td></tr><tr><td>5</td><td>Nil</td><td>1,000</td></tr><tr><td>**Total**</td><td>**6,000**</td><td>**10,000**</td></tr></table>	10
2	87.	The X limited is considering the purchase of the machine. Two machines are available 'E' and 'F'. The cost of each machine is Rs 60,000, each machine has an expected life of 5 years. Net profits before tax and after depreciation during the expected life of the machines are given here <table><tr><th>Year</th><th>Machine E</th><th>Machine F</th></tr><tr><td>1</td><td>15,000</td><td>5,000</td></tr><tr><td>2</td><td>20,000</td><td>15,000</td></tr><tr><td>3</td><td>25,000</td><td>20,000</td></tr><tr><td>4</td><td>15,000</td><td>30,000</td></tr><tr><td>5</td><td>10,000</td><td>20,000</td></tr></table> The average rate of tax is 50%. Calculate: a.) Average Rate of Return b.) Average return on average investment method	10
2	88.	Following particulars relate to two machines producing identical products <table><tr><th>Particulars</th><th>Machine A</th><th>Machine B</th></tr><tr><td>Original cost</td><td>1,00,000</td><td>1,50,000</td></tr><tr><td>Life in years</td><td>5 years</td><td>5 years</td></tr><tr><td>Tax rate</td><td>50%</td><td>50%</td></tr></table> **Profit before depreciation** <table><tr><th>Year</th><th>Machine A</th><th>Machine B</th></tr><tr><td>1</td><td>80,000</td><td>40,000</td></tr><tr><td>2</td><td>15,000</td><td>45,000</td></tr><tr><td>3</td><td>40,000</td><td>50,000</td></tr><tr><td>4</td><td>40,000</td><td>24,000</td></tr><tr><td>5</td><td>35,000</td><td>71,000</td></tr><tr><td>Scrap value</td><td>10,000</td><td>20,000</td></tr></table>Calculate a.) Return on Average Investment b.) Average return on average investment	10
3	89.	A company issues 10,000 bonds of Rs 100 each at 14% per annum, marketing cost are Rs 20,000, the bonds are to be redeemed after 10 years and the company is taxed at 40%, Compute the cost of debt if the bonds are issued	10

<table>
<tr><td></td><td></td><td>a) at par
b) at premium of 5%
c) at discount 5%</td><td></td></tr>
<tr><td>3</td><td>90.</td><td>A company issues 10,000 bonds of Rs 100 each at 14% per annum, marketing cost are Rs 20,000, the bonds are to be redeemed after 10 years and the company is taxed at 40%, Compute the cost of debt if the bonds are issued
a) at par
b) at premium of 10%
c) at discount 10%</td><td>10</td></tr>
<tr><td>3</td><td>91.</td><td>Alpha limited issued 10% redeemable Preference shares of Rs 100 each redeemable after 10 years. The floatation cost is Rs 5 per share. Compute the cost of preference share if the shares are issued:
a) at par
b) at premium of 5%
c) at discount of 5%</td><td>10</td></tr>
<tr><td>3</td><td>92.</td><td>The shares of Rose limited are currently traded at Rs 40 per share, the company dividend record is as follows:
2000 – 2001 = Rs 2.20
2001 – 2002 = Rs 2.42
2002 – 2003 = Rs 2.66
2003 – 2004 = Rs 2.92
2004 – 2005 = Rs 3.22
Rose limited plans to issue new equity shares at Rs 40, the floatation cost is 5% of the issue price. You are required to determine:
a) Growth rate in dividends
b) Cost of equity capital assuming that the growth rate will continue at the same rate.
c) Cost of new equity shares of Rs 40 each, the floatation cost is 5%.</td><td>10</td></tr>
<tr><td>3</td><td>93.</td><td>Snow limited earns a profit after tax of Rs 10,00,000. The company has 1,00,000 shares outstanding and the current market price per share is Rs 80. The earnings are expected to remain stable and the payout is 100%
a) Calculate the cost of equity capital
b) What will be the cost of equity capital if the payout is 50% and the firm earns 15% on its investment.</td><td>10</td></tr>
<tr><td>3</td><td>94.</td><td>The following is the capital structure of Sara limited as on 31/12/13
<table>
<tr><th>Particulars</th><th>Rs</th></tr>
<tr><td>Equity shares 20,000 shares of Rs 100 each</td><td>20,00,000</td></tr>
<tr><td>10% preference shares of Rs 100 each</td><td>8,00,000</td></tr>
<tr><td>12% debentures</td><td>12,00,000</td></tr>
</table>
The Market price of the company shares is Rs 10 and it is expected that a dividend of Rs 10 per share would be declared after one year. The dividend growth rate is 6%.
a) If the company is in 50% tax slab rate compute the weighted average.
b) Assuming that in order to finance an expansion, plan the company intends to borrow a fund of Rs 20,00,000 bearing 14% rate of interest, what will be the company’s revised weighted average cost of capital?
This financial decision is expected to increase the dividend from Rs 10 to Rs 12 per share. However, the market price of equity share is expected to decline from Rs 110 to Rs 105 per share.</td><td>10</td></tr>
</table>

<table>
<tr><td>3</td><td>95.</td><td>The capital structure of Supertech limited is as under
<table><tr><th>Particulars</th><th>Rs.</th></tr><tr><td>9% debenture of Rs 100 each</td><td>5,50,000</td></tr><tr><td>11% preference shares of Rs 100 each</td><td>4,50,000</td></tr><tr><td>Equity shares Rs 10 per share</td><td>10,00,000</td></tr></table>a) Rs 100 per debentures redeemable at par has 2% floatation cost and 10 years of maturity. The market price per debenture is Rs 105.
b) Rs 100 per preference share redeemable at par has 3% flotation cost and 10 years of maturity. The market price of preference share is Rs 106.
c) Equity share has a market price per share of Rs 20. The next year expected dividend is Rs 2 per share with the annual growth of 5%. The firm has a practice of paying all the earnings in the form of dividends.
The corporate tax is 35%.
Calculate
a. Cost of each source of capital.
b. Calculate weighted average cost of capital using market value weights.</td><td>10</td></tr>
<tr><td>3.</td><td>96.</td><td>Sathyam industries has assets of Rs 3,20,000. The sources of funds are equity capital Rs 1,80,000. General reserves 36,000. Debt Rs 1,04,000.
The company’s total profits after interest and tax for the year ended 31/3/19 is Rs 27,000. It pays 10% interest on its debt and is in the 50% tax bracket. The equity share capital consists of 1800 shares of Rs 100 each. Current market price of share is Rs 150.</td><td></td></tr>
<tr><td>3</td><td>97.</td><td>A ltd has a share capital of Rs.1,00,000 divided into shares of Rs.10 each. The management is considering the following alternatives for financing a capital expenditure of Rs.50,000.
a.) Issue of 10% debentures.
b.) Issue of 5,000, 12% preference shares of Rs.10 each.
c.) Issue of 5,000 shares of rs.10 each
The earnings before interest and tax are Rs.30,000
Calculate the effect of each alternative on the earnings per share, assuming
a.) EBIT continues to be same even after the capital expenditure.
b.) EBIT increases by Rs.15,000.
Tax liability of 40%.</td><td>10</td></tr>
<tr><td>3</td><td>98.</td><td>Rainbow Ltd has an ordinary share capital of Rs.25 lakhs consisting of 25,000 shares of Rs.100 each. The management is planning to raise another Rs.20 lakhs to finance a major programme of expansion. The options available are:
a.) Entirely through ordinary shares.
b.) Rs. 5 lakhs through ordinary shares and Rs. 15 lakhs through long-term borrowing at 9% interest per annum.
c.) Rs. 10 lakhs through ordinary shares and Rs. 10 lakhs through 5% preference shares
Rainbow Ltd expects earnings before interest and tax of Rs. 10 lakhs. Determine the earning per share in each alternative assuming a tax rate of 50%.</td><td>10</td></tr>
</table>

3	99.	Sunshine Ltd has an equity capital 6,000 shares of Rs. 100 each. The company plans to raise Rs.4,00,000 for expansion and modernization. The following alternatives are under consideration a.) Issue of common stock. b.) Issue of common stock Rs.2,00,000 and 10% debt for Rs2,00,000 c.) Issue of 10% debt d.) Issue of 10% preference shares for Rs.2,00,000 and 10% debt for Rs. 2,00,000 The company existing EBIT is Rs.4,00,000. The rate of corporate tax is 50%. Determine the EPS in each plan and give your comment.	10
3	100.	A company needs Rs. 62,50,000 for the construction of new project. The following three plans are possible a) The company may issue 3,12,500 equity shares of Rs.10 per share and 31,250 debentures of Rs. 100 denomination bearing 8% rate of interest. b) The company may issue 3,12,500 equity shares of Rs.10 per share and 31,250 preference shares of Rs.100 Per share bearing 8 % rate of dividend. i) If the company's EBIT are Rs.1,25,000, Rs.2,50,000, Rs.5,00,000, Rs.7,50,000 and Rs.12,50,000 what are the EPS under each of three financial plans? Assume a corporate tax 40%. ii) Which alternative would you recommend and why?	10
3	101.	Explain the factors determining the Capital structure.	10
3	102.	Explain NI approach.	10
3	103.	Explain the Net Operating Approach.	10
3	104.	Explain the traditional theory of Capital structure.	10
3	105.	Explain MM's approach of capital structure.	10
3	106.	Explain the determinants of dividend policy.	10
3	107.	Explain Walter's model of dividend policy.	10
3	108.	Explain Gordon's model of dividend policy.	10
3	109.	Explain MM's model of dividend policy.	10
4	110.	From the following information extracted from the books of a manufacturing concern, compute the operating cycle in days	10

Period covered	365 days
Average period of credit allowed by suppliers	16 days
	(Rs.'000)
Average total of debtors outstanding	480
Raw material consumption	4,400
Total production cost	10,000
Total cost of goods sold for the year	10,500
Sales for the year	16,000
Value of average stock maintained	
Raw materials	320
Work in progress	350
Finished goods	260

4	111.	From the following data compute the duration of operating cycle for each of the two companies	10

PARTICULARS	X LTD	Y LTD
Stocks:		
Raw materials	40,000	60,000
Work-in-progress	30,000	45,000
Finished goods	25,000	38,000
Purchase/consumption of raw materials	1,60,000	2,70,000
Cost of goods produced/sold	3,00,000	3,80,000
Sale (on credit)	4,32,000	
Debtors	72,000	1,08,000
Creditors	20,000	27,000

Assume 360 days per year for computational purposes

4	112.	Calculate the operating cycle of a company from the following information.	10

Particulars	Rs.
Raw material consumption per annum	84,200
Annual cost of production	1,42,500
Annual cost of goods sold	1,53,000
Annual sales	1,95,000
Average value of current assets maintained:	
Raw materials	12,400
Work-in-progress	7,200
Finished goods	12,200
Debtors	26,000

The company gets 30 days credit from its suppliers. All sales made by the firm are on credit only. You may take one year as equal to 365 days

4	113.	The following information is available for Shogun Ltd.	10

Particulars	Rs. In thousands
Average stock of raw materials and stores	400
Average work-in-process inventory	600
Average finished goods inventory	360
Average accounts receivable	600
Average accounts payable	360
Average raw materials and stores purchased on credit and consumed per day	20
Average work-in-process value of raw materials committed per day	25
Average cost of goods sold per day	36
Average sales per day	40

You are required to calculate:

a) Duration of raw materials stage
b) Duration of work-in-progress stage
c) Duration of finished goods stage
d) Duration of the operating cycle

4	114.	Following particulars are available from the past records of a firm	10

Particulars	Cost per unit

		<table><tr><td>Raw materials</td><td>24</td></tr><tr><td>Labour</td><td>9</td></tr><tr><td>Overheads</td><td>18</td></tr><tr><td>Total cost</td><td>51</td></tr><tr><td>Add: profit</td><td>9</td></tr><tr><td>Selling price</td><td>60</td></tr></table>a) Raw materials are in stock on an average of one month b) Materials are in process on an average half a month c) Finished goods are in stock on an average 2 months d) Credit allowed by suppliers one month e) Credits allowed to debtors is 2 months f) Time lag in payment of wages is one and half week g) Time lag in payment of overheads is 2 weeks h) 25% of output is sold for cash i) Cash to be maintained in hand Rs 15,000 j) Safety margin 10% Prepare a statement showing the working capital requirement by a firm to finance the level of activity of 1,56,000 units of production, wages and overheads accrue evenly throughout the year.	
4	115.	Following particulars are available from the records of a company:<table><tr><th>Particulars</th><th>Cost</th></tr><tr><td>Raw materials</td><td>48</td></tr><tr><td>Labors</td><td>18</td></tr><tr><td>Overheads</td><td>36</td></tr><tr><td>Total cost</td><td>102</td></tr><tr><td>Add: Profit</td><td>18</td></tr><tr><td>Selling price</td><td>120</td></tr></table>a) Raw materials are in stock on an average one month b) Materials are in process on average half a month c) Finished goods are in stock on an average one month d) Credit allowed by supplier is one month e) Credit allowed to debtors is 2 months f) Lag in payment of wages one and half month g) Lag in payment of overhead expenses is one month h) 25% of output is sold against cash i) Cash at bank is expected to be Rs 10,000 Prepare a statement showing working capital to finance level of activity of 1,56,000 units of production. Assume 4 weeks in a month. Wages and overheads accrue evenly throughout the year.	10
4	116.	Estimate working capital requirement Estimated sales for the year – 5200 units Elements of cost and amount per unit: Raw materials - Rs 8 Direct Labour - Rs 2 Overheads - Rs 6 Total cost - Rs 16 Add: profit - Rs 4 Selling price - Rs 20 a) Raw materials are in stock on an average one month b) Materials are in process on an average half a month	10

<table>
<tr><td></td><td></td><td>c) Finished goods are stock on an average 6 weeks
d) Credit allowed by creditors one month
e) Credit allowed to debtors is 2 months
f) Lag in payment of wages is one and half week
g) Cash in hand is expected to be Rs 7300
Production is carried on evenly during the year. Wages and overheads accrue similarly.
Note: Calculations are to be made on the basis of weeks.</td><td></td></tr>
<tr><td>4</td><td>117.</td><td>Calculate amount of working capital requirement from the following information
<table>
<tr><th>Particulars</th><th>Rs per unit</th></tr>
<tr><td>Raw materials</td><td>160</td></tr>
<tr><td>Direct Labour</td><td>60</td></tr>
<tr><td>Overhead</td><td>120</td></tr>
<tr><td>Total cost</td><td>340</td></tr>
<tr><td>Add: profit</td><td>60</td></tr>
<tr><td>Selling price</td><td>400</td></tr>
</table>
a) Raw materials are in stock on an average one month
b) Materials are in process on an average half month
c) Finished goods are in stock on an average one month
d) Credit allowed by suppliers one month
e) Credit allowed to debtors is 2month
f) Time lag in payment of wages one and half week
g) Time lag in payment of overheads one month
h) $1/4^{th}$ of sales is to be made on cash basis
Cash in hand is expected to be Rs 50,000. The expected level of production amount is 1,04,000 units for a year of 52 weeks.</td><td>10</td></tr>
<tr><td>4</td><td>118.</td><td>Explain the types of working capital.</td><td>10</td></tr>
<tr><td>4</td><td>119.</td><td>Explain the factors in determining working capital.</td><td>10</td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>2.</td><td>120.</td><td>A company is evaluating two mutually exclusive projects E and F. Both the projects involve a cash outlay of Rs. 1,00,000 and are expected to yield NCFs as follows
<table>
<tr><th>Year</th><th>Project E</th><th>Project F</th></tr>
<tr><td>0</td><td>(1,00,000)</td><td>(1,00,000)</td></tr>
<tr><td>1</td><td>39,000</td><td>1,19,000</td></tr>
<tr><td>2</td><td>45,630</td><td></td></tr>
<tr><td>3</td><td>53,387</td><td></td></tr>
</table>
a.) Find NPV of both the projects applying a discount rate of 10%.
b.) Find IRR of both the projects.
c.) Is there a conflict between NPV and IRR?
d.) Find the revised NPV and IRR on the basis of reinvestment rate approach. Assume reinvestment rate at 12%.
e.) Now rank the projects on the basis of revised NPV and IRR. Which project do you suggest?</td><td>15</td></tr>
</table>

<table>
<tr>
<td>2.</td>
<td>121.</td>
<td>A company is evaluating two mutually exclusive projects C and D. Both the projects involve a cash outlay of Rs. 10,000 and are expected to yield NCFs as follows

<table>
<tr><th>Year</th><th>Project C</th><th>Project D</th></tr>
<tr><td>0</td><td>(10,000)</td><td>(10,000)</td></tr>
<tr><td>1</td><td>10,000</td><td>1,000</td></tr>
<tr><td>2</td><td>1,000</td><td>1,000</td></tr>
<tr><td>3</td><td>1,000</td><td>12,000</td></tr>
</table>
a.) Find NPV of both the projects applying a discount rate of 10%.
b.) Find IRR of both the projects.
c.) Is there a conflict between NPV and IRR?
d.) Find the revised NPV and IRR on the basis of reinvestment rate approach. Assume reinvestment rate at 12%.
e.) Now rank the projects on the basis of revised NPV and IRR. Which project do you suggest?</td>
<td>15</td>
</tr>
<tr>
<td>3.</td>
<td>119</td>
<td>ABC limited has the following book value capital structure
<table>
<tr><th>Particulars</th><th>Rs in million</th></tr>
<tr><td>Equity capital (10 million shares of Rs10 par)</td><td>100</td></tr>
<tr><td>Preference capital, 11% (1,00,000 shares, Rs 100 par)</td><td>10</td></tr>
<tr><td>Retained earnings</td><td>120</td></tr>
<tr><td>Debentures, 13.5%, (5,00,000 debentures Rs 100 par)</td><td>50</td></tr>
<tr><td>Term loans, 12%</td><td>80</td></tr>
</table>
The next expected dividend per share is 1.50. The dividend per share is expected to grow at the rate of 7%. The market price per share is 20. Preference stock redeemable after 10 years is currently selling for Rs 75 per share. Debentures redeemable after 6 years are selling for Rs 80 per debentures.
Tax rate for the company is 50%.

Calculate the weighted average cost of capital using:
a) Book value propositions
b) Market value propositions</td>
<td>15</td>
</tr>
<tr>
<td>3.</td>
<td>119</td>
<td>The following is the capital structure of SSP Ltd
<table>
<tr><th>Particulars</th><th>Book value (Rs.)</th><th>Market Value (Rs.)</th></tr>
<tr><td>10% bond (Rs. 100 each)</td><td>40,00,000</td><td>955 per bond</td></tr>
<tr><td>12% Debenture (Rs.500 each)</td><td>20,00,000</td><td>540 per debenture</td></tr>
<tr><td>14% loan from IFCI</td><td>15,00,000</td><td>15,00,000</td></tr>
<tr><td>10% preference share (Rs. 200 each)</td><td>10,00,000</td><td>185 per share</td></tr>
<tr><td>Equity share capital (Rs.10 each)</td><td>50,00,000</td><td>24 per share</td></tr>
<tr><td>Retained Earnings</td><td>45,00,000</td><td>-</td></tr>
</table>
Company earnings are growing at annual average rate 7%. The current dividend of the company amounts to Rs. 3 per share. The company pays tax at the rate 40%.
a.) What is the WACC of existing capital structure of the company on the basis of book value of weights.
b.) What is the WACC of existing capital structure of the company on the basis of market value of weights.</td>
<td>15</td>
</tr>
</table>

4	120	The following information as contained in the trading and profit and loss account and balance sheet of Ankur and Company limited, you are required to compute operating cycle period. Offer your comments.	15

Trading and Profit and Loss Account (for the year ended 31.3.2011)

Particulars	Rs.	Particulars	Rs.
To Opening stocks:		By Sales	3,20,000
Raw materials	14,000	By Closing stocks:	
Work-in-progress	30,000	Raw Materials	16,000
Finished goods	20,000	Work-in-progress	40,000
To purchases	2,40,000	Finished goods	30,000
To Wages	25,000		
To Manufacturing expenses	15,000		
To Gross profit c/d	62,000		
Total	**4,06,000**	**Total**	**4,06,000**
To Office and administrative expenses	16,000	By Gross profit b/d	62,000
To selling and distribution expenses	8,000		
To Net profit	38,000		
Total	**62,000**	**Total**	**62,000**

Balance Sheet (as on 31.3.2011)

Liabilities	Rs.	Assets	Rs.
Share capital	3,00,000	Land and Buildings	1,50,000
Loans	1,60,000	Plant and Machinery	2,40,000
Profits and Loss a/c	38,000	Stocks:	
Creditors	42,000	Raw Materials	16,000
		Work-in-progress	40,000
		Finished goods	30,000
		Debtors	52,000
		Cash	12,000
Total	**5,40,000**	**Total**	**5,40,000**

Additional information:

a) Closing balance of debtors is Rs.4,000 more than the operating balance of debtors.
b) Operating balance of creditors was Rs.12,000
c) Purchases and sales are made on credit basis only.

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11 Determine the EOQ when a firm is consuming 600 units of a particular raw material per month at Rs.300 per unit. Carrying cost is Rs.135 and inventory holding cost is 12%. 3

12. Financial decisions are derived from investment decision. Discuss.

13. Calculate the future value of Rs.24,000 invested for 4 years at 12% and compounding to be performed continuously.

SECTION –C

14. **Case Study (Compulsory):** **1×15**

Ace Ltd is considering two projects P1 and P2 whose NCF profile is as mentioned below:

NCF's project (in crores)		
Year	**Project 1**	**Project 2**
0	-50	-70
1	12	41
2	36	-5
3	18	43

Ace Ltd cost of capital is 14%

Required:
1) NPV of Project P1
2) IRR of Project P1
3) NPV of Project P2
4) Do you think Project P2 have multiple IRR problems
5) If you answer to question No 4 is yes, suggest how you could resolve the problem by calculati
modified IRR.
6) If project P1 and P2 are mutually exclusive suggest which project should be accepted by Ace l

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