UNIT I

1. The objective of financial management is to ______________
   a) Generate the maximum net profit
   b) Generate the maximum retained earning
   c) Generate the maximum wealth for its shareholders
   d) Generate maximum funds for the firm at the least cost
2. Financial Management is mainly concerned with _______
   a)**All aspects of acquiring and utilizing financial resources for firms activities**
   b) Arrangement of funds
   c) Efficient management of every business
   d) Profit maximisation
3. The primary goal of financial Management is ___________
   a)To Maximize the return
   b) To minimize the risk
   c) to maximize the wealth of owners
   d)**to maximize profit**
4. The Job of financial Manager is confined to ___________
   a) Raising of fund
   b) Management of cash
   c) **Raising of funds and their effective utilisation**
   d) Application of Funds
5. Market value of the shares are decided by ____________
   a) The respective companies
   b) **The investment companies**
   c) The government
   d) Shareholders
6. Which of the following is not an objective of financial management ?
   a) Maximization of wealth of shareholders
   b) Maximization of profit
   c) Mobilization of fund at an acceptable cost
   d**) Ensuring discipline in the organisation**

7. __________and __________ are the two versions of goals of the financial management of the firm.

    a) Profit Maximisation & wealth maximization

    b) Production Maximisation & sales Maximisation

    c) Sales Maximisation & Profit Maximisation

    d) Value Maximisation & wealth Maximisation

8. Which of the following is not the responsibility of financial management?

    a) allocation of funds to current and capital assets

    b) obtaining the best mix of financing alternatives

    c) **preparation of the firm's accounting statements**

    d) development of an appropriate dividend policy

9. Which of the following are not among the daily activities of financial management?

    a) **sale of shares and bonds**

    b) credit management

    c) inventory control

    d) the receipt and disbursement of funds

10. __________refers to that part of the management activity which is condernèd with planning and controlling of firm's financial resources

    a) Corporate Management

    b) Financial Management

    c) Business Management

    d) Investment Management

11. Which type of Industry need more investment in Fixed asset.?

    a) **Manufacturing** b) Trading c) Service d) All of the above

12. Financial Management is indispensible in any organisations it helps in _______

    a)taking sound financial decision

    b) proper use and allocation

    c) Improving the profitability of fund

    d) **all of the above**

13. Shareholders wealth in a firm is represented by _______

    a) Number of People employed in a firm

b) Book value of firms asset less book value of firms liabilities

c) Amount of salary paid to its employees

d) **Market price per share of the firms common stock**

14. The decision function of financial management can be broken down into the _______decisions

a) Financing and Investment

b) Investment , financing and asset management

c) Financing and dividend

d) Capital budgeting , cash management and credit managment

15. Proper cash management can be done by preparing _____________

a) **Cash flow statement** b) Fund Flow statement c) Ratio Analysis d) Balance sheet

16. ____________is the allocation of available resources to various proposals .

a) **Capital Budgeting** b) Cost of Capital

c) Capital Planning d) Capital Structure

17. Select the functions of finance manager

a) Financial Forecasting b)Acquisition of Funds

c)Investment of funds **d) All of the above**

18. The Objective of Business to maximize owners economic welfare can be achieved by ____

a) Profit & wealth Maximisation

b) Sales & Profit Maximisation

c) Production & sales Maximisation

d) Wealth & Sales Maximisation

19. Long term Investment decision is referred to as __________

a) **Capital Budgeting** b) Working capital Management

c) Capital Structure d) Cost of capital

20. Short term Investment decision is referred to as _____________

a) Capital Budgeting **b) Working capital Management**

c) Capital Structure d) Cost of capital

UNIT II

21. _________ is the minimum rate of return expected by its investors .

a) Cost of Capital b) Dividend c) Profit d) Yield

22. Company average cost of capital is

a) Average cost of equity shares and debentures

b) Average cost of equity and preference shares

c) Average cost of shares and all sources of long term funds

d) Average cost of short term funds

23. Company's cost of capital is called ________

a)Leverage

b) Hurdle rate

c) Risk rate

d) return rate

24. Cost of retained earnings is equal to ______

a) Cost of equity

b) cost of debt

c) Cost of bank loan

d) Cost of term loan

25. EBIT is usually as same thing as ___________

a) Funds provided by operation

b) Earning before taxes

c) Net income

d) Operating profit

26. Cost of capital of a long term debt is generally _______

a) Lower than the owned funds

b) Equal to that of owned funds

c) More or less than owned funds

d) Higher than that of owned funds

27. Arbitary process is the behavioural foundation for the _________

a) **MM approach** b) Gordon approach c) Sharpe approach d) Jensen approach

28. The cost of equity capital is all of the following except_____________

a) the minimum rate that a firm should earn on the equity-financed part of an investment.

b) a return on the equity-financed portion of an investment that, at worst, leaves the market price of the stock unchanged.

c) by far the most difficult component cost to estimate.

d) **generally lower than the before-tax cost of debt.**

29. According to traditional approach , the average cost of capital _________
    a) Remains constant upto a degree of leverage and rises sharply thereafter with every increase in leverage
    b) Rises Constantly with increase in leverage
    c) Decrease up to a certain point, remains unchanged for moderate increase in leverage and rises beyond a certain point.
    d) Decrease at an increasing rate with increase in leverage
30. Ownership securities are represented by ________
    a) **Stock** b) Loan c) debt d) debentures
31. Formula for cost of debt is __________
    a) **I *(1 – t)** b) I + P c) I – P d) I * P
32. Traditional theorists believe that ___________
    a) There exist an optimal capital structure
    b) No optimum capital structure
    c) Equal optimum capital structure
    d) Higher capital structure
33. While calculating weighted average cost of capital , market value weights are preferred because ________
    a) Book value weights are historic in nature
    b) Book value weights are very high in nature
    c) Book value weights fluctuate violently
    d) Market value weights are fairly consistent over a period of time
34. Financial risk is most associated with ____________
    a) Use of equity financing by corporation
    b) Use of debt financing by corporation
    c) Equity Investment held by corporation
    d) Debt investment held by corporations
35. Retained earnings are ___________
    a) An indication of company's liquidity

b) Same as cash in bank

c) Not important when determining dividend

d) The cumulative earnings of the company after dividend

36. The value of EBIT and EPS is equal to Zero is known as ________

a)Break even point b) **Financial Break even point** c)Operating Break even point

d) overall break even point

37. In weighted average cost of capital , rising in interest rate leads to _________

a) **Increase in cost of debt**

b) Increase in capital structure

c) decrease in capital structure

d) Decrease in cost of debt

38. ____________Cost is the discount rate which equates the present value of cash inflows with the present value of cash outflows .

a) Explicit cost b) Implicit cost c) Historical cost d) Specific cost

39. Cost of Equity can be computed by _________

a) Dividend Yield method

b) Earning Yield Method

c) Realised Yield Method

d) All of the above

40. _____________is the opportunity cost of dividends forgone by the shareholders.

a) Cost of Equity b) Cost of Preference

c) Cost of equity **d) Cost of retained**

UNIT III

41. ________of a firm refers to the composition of its long term funds

a) **C apitalisation**

b) Over-capitalisation

c) Under-capitalisation

d) Market capitalization

42. __________is concerned with the qualitative aspect

a) **Capital Structure** b) Capitalisation c) Financial structure d) Capital gearing

43. ______________refers to financial resources , short as well as long term and and all forms of

debt as well as equity.

a) Capital Structure b) Capitalisation **c) Financial structure** d) Capital gearing

44. In ___________ approach , the capital Structure decision is relevant to the valuation of the firm.
    a) Net income
    b) Net operating income
    c) Traditional
    d) Miller and Modigliani
45. To increase a given present value, the discount rate should be adjusted
    a) upward. b) **downward.** c) No change. d) constant
46. The term "capital structure" refers to_____________
    a) long-term debt, preferred stock, and common stock equity
    b) current assets and current liabilities.
    c) total assets minus liabilities.
    d) shareholders' equity.
47. A critical assumption of the net operating income (NOI) approach to valuation is:
    a) that debt and equity levels remain unchanged.
    b) that dividends increase at a constant rate.
    c) **that k_o remains constant regardless of changes in leverage.**
    c) that interest expense and taxes are included in the calculation.
48. The traditional approach towards the valuation of a company assumes:
    a) that the overall capitalization rate holds constant with changes in financial leverage.
    b) **that there is an optimum capital structure.**
    c) that total risk is not altered by changes in the capital structure.
    d) that markets are perfect
49. Two firms that are virtually identical except for their capital structure are selling in the market at different values. According to M&M
    a) One will be at greater risk of bankruptcy.
    b) T he firm with greater financial leverage will have the higher value
    c) T his proves that markets cannot be efficient.

d) **T his will not continue because arbitrage will eventually cause the firms to sell at the same value.**

50. Which of the following does not affect the capital structure of the company ?
    a) Cost of capital
    b) **Composition of current asset**
    c) Size of the company
    d) Expected nature of cash flow
51. _____________refers to the total amount of securities issued by a company
    a) **Capitalisation** b) Capital Structure c) Dividend structure d) Financial structure
52. _______________is composed of a specified percentage of short term debt and shareholder's funds
    a) Financial structure b) Capital Structure c) Capitalisation d) Capitalisation
53. _______________risk arises on account of the use of debt or fixed inerest bearing securities in its capital.
    a) **Financial risk** b) Inflation risk c) Social risk d) Monetary risk
54. ___________theory propounds that a company can increase its value and decrease the overall cost of capital by increasing the proportion of debt in its capital structure .
    a) Net Income approach b) Net operating Income approach
    c) Traditional Approach d) MM approach
55. Which among the approach has assumed the following assumption (i)m Cost of debt is less than the cost of equity (ii) There is no taxes (iii) Risk perception is not changed by use of debt
    a) Net Income approach b) Net operating Income approach
    c) Traditional Approach d) MM approach
56. The traditional approach also known as __________
    a) Intermediate approach **b)**Modern approach c) Cost approach d) dividend approach
57. ____________risk refers to the variability of earnings before interest and taxes .
    a) Business Risk b) Inflation risk c) Social risk d) Monetary risk
58. Debt is a cheaper source of finance compared to preference and equity capital due to ________
    a) Fixed rate of Interest b) Legal obligation to pay interest
    c) Repayment of loan d) **All of the above**

59. ______________change in the capital structure of a company does not affect the market value of the firm and overall cost of capital structure of a company does not affect the market value of the firm .

a) Net Income approach b**) Net operating Income approach**

c) Traditional Approach d) MM approach

60. In _____________approach , cost of equity increases beyond a certain point because of increased debt increases financial risk of the equity shareholders.

a) Net Income approach b**)** Net operating Income approach

c) **Traditional Approach** d) MM approach

UNIT IV

61. Capital Budgeting is related to __________

a) Long term asset

b) Short term asset

c) Long term and short term asset

d) Fixed asset

62. Present value takes _______

a) Discounting rate

b) Compounding rate

c) Inflation rate

d) Deflation rate

63. The available capital funds are to carefully allocated among competing projects bu careful prioritization this is called ____

a) Capital Positioning

b) Capital Structuring

c) Capital rationing

d) Capital budgeting

64. When _________is greater than zero the project should be accepted .

a) Internal rate of return

b) Profitability Index

c) **Net Present value**

d) Modified Internal rate of return

65. ______________is defined as the length of time required to recover the initial cost out-lay

a) **Pay- back Period**

b) Inventory conversion period

c) Discounted pay back period

d) Budget period

66. While evaluating capital investment proposals, the time value of money is considered in case of ____________

(a)Pay-back method

(b)**Discounted cash flow method**

(c)Accounting rate of return method

(d)None of these

67. The return after the pay-off period is not considered in case of

(a)**Payback method**

(b)IRR method

(c)Present value index method

(d)None of these

68. Which of the following is true if NPV is Positive ?

a) IRR must be greater than 0

b) The discount rate exceeds the cost of capital

c) Profitability index equals 1

d) ARR must equal 1

69. Net present value is a popular method which falls _________

a) Within non discount cash flow method

b) Within discounted cash flow method

c) Traditional method

d) Modern method

70. Which of the following techniques of project appraisal does not consider the time value of money ?

a) Benefit cost ratio

b) Net present value

c) Internal rate of return

d) Accounting rate of return

71. A Project whose cash flows are more than capital invested for rate of return then net present value will be ________

a) **Positive** b)Independent c)Negative d)Zero

72. In a mutually exclusive project , projects which is selected for comparison with others must have _______

a) **higher net present value** b)Lower net present value c) Zero net present value d) all of the above

73. Pay back period in which an expected cash flows are discounted with help of project cost of capital is called ________

a) Discounted payback period

b) Discounted rate of return

c) Discounted cash flows

d) Discounted project cost

74. Profitability Index in capital budgeting is used for _________

a) Negative projects b) Relative projects c) **Evaluate project** d) Earned project

75. Present value of future cash flow is divided by an initial cost of project to calculate ____

a) Project Index b) Positive Index c) **Profitability Index** d)Negative Index

76. If net present value is positive then profitability index will be ________

a)greater than 2 b)equal to 2 c) Less than one d)**Greater than one**

77. Situation in which one project is accepted while rejecting another project in comparison is classified as _________

a) Present value **b) Mutually exclusive** c) Mutual Project d)Mutually Accepted

78. Time adjusted method is otherwise known as_______

a) **Discounted method** b) Traditional method c) ARR Method d) Pay back method

79. In which method, Net profit after tax and depreciation is used rather than cash inflows.

a) Pay back method b) IRR Method c**) Accounting rate of return** d) NPV method

80. In which method , net present value is determined by discounting the future cash flows of a project at a predetermined rate .

a) IRR Method b) ARR Method c) PI method d) NPV method

UNIT V

81. Dividend are paid ______

    a) Yearly **b)**Monthly c) Semi – annually d) quarterly

82. _____________ enhance the market value of shares and therefore equity capital is not free of cost.

    a) Face value **b) Dividend** c) Redemption Value d) Book value

83. What are the different options other than cash used for distributing profits to shareholders?

    a) Bonus shares b) Stock split c) Stock purchase d) **All of these**

84. In Walter model formula D stands for ___________

    a) **Dividend per share** b) Direct Dividend c) Dividend Earning d) None of these

85. In MM model MM stands for.___________

    a) M.Khan and Modigiliani b) Miller and M.Khan

    c) Modigiliani and M.Khan d) **Modigliani and miller**

86. Which of the following assumptions are underlying Modiglianin and miller approach?

    a) Capital market are perfect

    b) Investors are assumed to be rational and behave accordingly

    c) there is no corporate and personal Income tax

    d) **All of the above**

87. __________dividend promises to pay shareholders at a future date.

    a)Scrip b) Cash c) Stock d) Property

88. According to ________model , dividend decisions are is irrelevant .

    a) Modigliani & Miller Approach b)Gorden approach c)Walter Approach d) XV Approach

89. Dividend policy affect both the long term financing and ________wealth .

    a) Owners b)Creditors c)Debtor **d) shareholder**

90. ________is the distribution of the profit of a company among its shareholders.

    a) shares b) Interest **c) Dividend** d) Commision

91. Walter's Policy on dividend policy assumes that ________

    a) the firm offers an increasing amount of dividend per share at a given level of price per share

b) the firm has a finite life

c) the cost of capital of the firm is variable

d) **Equal to current and current liabilities including bank borrowings**

92. Dividend policy has no effect on the market price of the shares and the value of the firm is determined by the earning capacity of the firm was expressed by ________

a) MM Model b) Gorden approach c) Walter's approach d) Jonsen approach

93. According to Walter , If r>k, the optimum payout ratio would be ______

a) zero b) 100 % c)no optimum payout d) 50 %

94. Investments are financed through retained earning only in ___________

a) **Walter's approach** b) Gordon approach c) MM Approach d) Treynor approach

95. Payment of dividend at the usual rate is termed as ________

a) Regular dividend policy b) Stable dividend policy

c) Irregular dividend policy d) No dividend Policy

96. Dividend paid in the form of some other asset other than cash is ________

a)Property dividend b) Cash dividend c) Stock dividend d)Bond dividend

97. Dividend Paid out of capital is known as_________

a) Liquidation dividend b) Profit dividend c) Interim dividend d) Final dividend

98. Dividend which is recommended to the shareholders at the annual general meeting is known as _

a) Liquidation dividend b) Profit dividend c) Interim dividend **d) Final dividend**

99. Which among the factors determine the dividend ?

a) Nature of Industry b) Magnitude of Earnings

c) Age of the company **d) all of the above**

100. The assumption in dividend decision of corporate tax do not exist is assumed by _________

a) Myron Gordon b) Walter c) Sharpe d) Treyer

UNIT I

1. **What is Financial Management?**

    Obtaining and effectively utilizing the funds necessary for efficient operations is Financial Management

2. **Tell any two aim of Finance Function.**

    Acquiring sufficient funds , Proper utilization of funds ,

3. **How can the objective of maximizing the owners economic welfare can be achieved ?**

    By Profit Maximisation and Wealth Maximisation

4. **Name some of the Financial decision .**

    Investment decision, Financing decision , dividend decision

5. **What are functions of a finance Manager?**

    Financial Forecasting and planning , Acquistion of funds, Investment of funds,

6. **What is Profit Maximisation concept?**

    A business being an economic institution must earn profit to cover its cost and provide for growth.

7. **What is wealth Maximisation?**

    Wealth maximization is the concept of increasing the value of a business in order to increase the value of the shares held by stockholders. .

8. **How financial Management helps the organisation?Write any one or two reason .**

    (i)Acquisiton of funds as when required at minimum possible cost

    (ii) Proper use and allocation of funds

9. **What is the focus of Traditional approach with finance function .**

    The Focus of traditional approach was on procurement of long term funds .

10. **What is the modern approach focus on ?**

    It includes both raising of funds as well as their effective utilization.

UNIT II

1. **What is cost of capital?**

    It is the minimum rate of return expected by its investor

2. **Tell about Composite cost .**

    It is the combined cost of various sources of capital

3. **What is cost of debt ?**

The cost of debt is the rate of interest payable on debt.

4. **What is cost of preference capital?**

   It is a function of dividend expected by its investors.

5. **Find the meaning of cost equity capital.**

   It is the maximum rate of return that the company must earn on equity financed portion of its investments in order to leave unchanged market price of its stock.

6. **How will you compute the cost of retained earnings?**

   After adjusting tax and cost of purchasing new securities :

   Kr = (D /NP + G) *(1-t)*(1-b)

7. **What is weighted average cost of capital ?**

   It is the average cost of various sources of finance . It is also known as composite cost of capital, overall cost of capital.

8. **How cost of capital helps in taking financial decision?**

   (i) capital budgeting (ii) capital structure decisions (iii) evaluating the financial performance

9. **What is Explicit cost?**

   It is the discount rate which equates the present value of cash inflows with the present value of cash outflows.

10. **What is Implicit cost ?**

    It is also known as opportunity cost. The cost foregone in order to take up a particular project.

UNIT III

1. **Define capital Structure .**

   According to Gerestenberg, “Capital structure of a company refers to the composition or make up of its capitalisation and it includes all long term capital resources”

2. **Tell the meaning of Capitalisation**

   Capitalisation refers to the total amount of securities issued by a company.

3. **Name the types of securities issued by the company to raise long term finance**

   (i) Equity shares (ii) Preference shares (iii) Debentures

4. **Tell the meaning of Financial Structure**

Financial Structure refers to all the financial resources marshaled by the firm, short as well as long term and all forms of debt as well as equity.

5. **What is optimum capital structure ?**

   Optimum Capital structure maximizes the value of the company and hence the wealth of its owners and minimizes the company's cost of capital.

6. **What is Net Income approach ?**

   The theory Propounds that a company can increase its value and decrease the overall cost of capitl by increasing the proportion of debt in its capital structure

7. **State any one assumptions of NI approach?**

   (i) The cost of debt is less than the cost of equity

8. **State NOI Approach?**

   Change in capital structure of a company does not affect the market value of the firm and overall cost of capital remains constant irrespective of the method of financing.

9. **State any one assumptions of NOI approach.**

   (i) Business risk remains constant at every level of debt equity mix

10. **State any two Assumptions of MM Approach**

    (i) There are no corporate taxes (ii) There is Perfect Market

UNIT IV

1. **What is capital Budgeting ?**

   Capital budgeting is the process of making investment decisions in capital expenditures

2. **List the capital budgeting decisions.**

   Accept reject decision, Mutually exclusive Project decision , Capital rationing decision

3. **Name the methods of evaluating profitability of capital investment proposals.**

   (a) Traditional Method (b) Modern method

4. **What is Pay back period method?**

   It represents the period in which the total investment in permanent assets pays back itself.

5. **Write the formula to calculate pay back period?**

   Pay back period = Cash outlay of the project / Annual cash Inflows

6. **Tell the meaning of Accounting rate of retun**

   Projects are ranked in order of the rate of earnings.

7. **What is Net present value method?**

NPV method takes into consideration the time value of money and attempts to calculate the return on investment by introducing the factor of time element

8. **How will you calculate NPV?**

   NPV = Present Value of all Cash Inflows - Present value of Initial Investment

9. **Find the meaning of IRR method**

   In IRR method is defined as that rate of discount at which the present value of cash inflows is equal to the present value of cash outflows. Discount rate is determined internally.

10. **Write the formula to calculate profitability Index/**

   PI = Present value of Cash Inflows / Present Value of Cash Outflows

UNIT V

1. **What do you mean by dividend?**

   Part of profits of a company which is distributed by the company among its shareholders

2. **What do you mean by Trading on equity?**

   The use of long term fixed interest bearing debt and preference share capital along with equity share capital is called financial leverage or trading on equity.

3. **What do you mean by scrip dividend ?**

   A scrip dividend promises to pay the shareholders at a future specific date .The objective of scrip dividend is to postpone the immediate payment of cash.

4. **Name the types of dividend Policy ?**

   a) Regular dividend Policy b) Stable dividend policy c) Irregular dividend policy d) No dividend policy.

5. **What is bonus issue ?**

   A company pays bonus to its shareholders either in cash or in the form of shares.

6. **Name the two main theories of dividend**

   1.Theory of Irrelevance 2. Theory of relevance .

7. **Tell about MM model.**

   MM support theory of irrelevance. Dividend policy has no effect on the market price of the shares and the value of the firm is determined by the earning capacity of the firm or its Investment policy.

8. **State any one walter's Model assumption.**

(i) Investments of the firm are financed through retained earning only

9. What is dividend payout ratio?

If r>k – Dividend payout ratio would be zero

If r<k, dividend payout ratio would be 100 %

If r=k – no optimum dividend payout

10. What is relevance concept of dividend by Myron Gordon ,Walter & Richardson?

According to them dividend communicate information to the investor's about the firm's profitability and hence dividend decision becomes relevant.

UNIT I

1. Examine the concept of Financial management
2. Sketch the importance of financial management
3. Show the Scope of financial management
4. Construct the Functions of a finance manager
5. Assess the aim of finance function

UNIT II

6. Show the significance of cost of capital.

7. (a)X ltd issues ₹**50,000** 8% debentures at par. The tax rate applicable to the company is 50%. Compute the cost of debt capital.

   (a) Y Ltd. ₹50000 8% debentures at a premium of 10 %. The tax rate applicable to the company is 60%. Compute the cost of debt capital.

   (b) A Ltd. issues ₹50,000 8% debentures at a discount of 5%. The tax rate is 50 %, Compute the cost of debt capital.

   (c) B Ltd issues ₹1,00,000 9% debentures at a premium of 10 %. The cost of floatation are 2%. The tax rate applicable is 60 %. Compute cost of debt – capital.

8. A company issues 1000 7% preference shares of Rs. 100 each at a premium of 10 % redeemable after 5 years at par. Compute the cost of preference capital.
9. Find the steps involved in computation of Cost of retained earnings.
10. Examine the steps involved in Computation of the weighted average cost of capital.

UNIT III

11. Assess the concept of Capitalisation, Capital structure & Financial structure
12. Examine the Importance of capital structure.
13. Find the factors determining capital structure
14. Show the form of capital structure and Concept of EBIT and EPS analysis
15. Assess the optimum capital structure of a firm

UNIT IV

16. Find the Nature of Capital Budgeting decision
17. Sketch the Importance of capital budgeting decisions
18. Examine the Capital Budgeting process
19. Show the Kinds of capital budgeting decision

20. The following information related to three projects. Calculate payback period and comment which project should be selected.

Particulars	Project A	Project B	Project C
Initial cash outflow	Rs. 4,00,000	Rs. 3,50,000	Rs.2,80,000
Annual cash inflow after Tax	Rs. 1,00,000	Rs.1,00,000	Rs.1,00,000
Life of project	5 years	5 years	5 years

UNIT V

21. Prepare the Dividend policy followed in the company.
22. Sketch the Criticism of MM approach
23. Show the Criticism of Walter model
24. Find the types of dividend policy
25. Construct the various Forms of Dividend.

UNIT I

1. Explain the nature of Financial Management
2. Explain the objectives of Profit maximization
3. Determine the objectives of Wealth maximization
4. Identify the role of finance manager.
5. Summarise the Functional areas of financial management

UNIT II

6. Analyse the (i) Dividend Yield method (ii) Earning yield method (iii) Realised yield method of computation of cost of equity
7. A company plans to issue 1000 new shares of □100 each at par. The floating costs are expected to be 5% of the share price. The company pays a dividend of □10 per share initially and the growth in dividends is expected to be 5%. Compute the cost of new issue of equity shares.

   (b) If the current market price of an equity share is □150, calculate the cost of existing equity share capital.

8. A firm has the following capital Structure and after – tax costs for the different source of funds used:

Source of funds	**Amount □**	**Proportion %**	**After – tax cost %**
Equity capital	15,00,000	25	5
Preference capital	12,00,000	20	10
Debt capital	18,00,000	30	12
Retained earnings	15,00,000	25	11

   You are required to compute the weighted average cost of capital.

9. Determine the methods of computation of cost of debt.
10. Identify the steps in computation of cost of preference capital.

UNIT III

11. Outline the NI Approach in capital structure
12. Determine the NOI Approach in capital structure
13. Explain the MM approach of capital structure
14. ABC Company has currently an ordinary share capital of ₹ 25 lakhs, consisting of 25,000 shares of ₹ 100 each. The management is planning to raise another ₹ 20 lakhs to finance a major programme of expansion through one of four possible financial plans. The options are

    1. Entirely through ordinary shares

2. ₹ 10 lakhs through ordinary shares and ₹ 10 lakhs through long-term borrowings at 8% interest per annum.

3. ₹ 5 laksh through ordinary shares and ₹ 15 lakhs through long-term borrowing at 9% interest per annum.

4. ₹ 10 lakhs through ordinary shares and ₹ 10 Lakhs through preference shares with 5% dividend.

The company's expected earning before interest and taxes (EBIT) will be ₹ 8 lakhs. Assuming a corporate tax rate of 50%, determine the earnings per share in each alternative and comment which alternative is the best and why?.

15. A company expects a net operating income of □1,00,000. It has □5,00,000 6% debentures. The overall capitalisation rate is 10%. Calculate the value of the firm and the equity capitalisation rate (cost of equity) according to the net opertaing Income approach.

    (c) If the debenture debt is increased to □7,50,000. What will be the effect on the value of the firm and the equity capitalisation rate?

UNIT IV

16. Classify the accounting rate of return method in capital budgeting decisions.
17. Examine Internal rate of return method ,its advantages and disadvantages .
18. Outline the Profitability Index method and its advantages and disadvantages.
19. From the following calculate NPV of the two projects and suggest which of the two project should be accepted assuming discount rate of 10 % (Present Value at 10 % : Year 1 – 0.909, Year 2 -0.826 , Year 3 – 0.751, Year 4 – 0.683, Year 5 – 0.621)

	Project X	Project Y
Initial Investment	Rs. 20000	Rs. 30000
Estimated Life	5 Yrs	5yrs
Scrap Value	Rs. 1000	Rs. 2000

The profits before depreciation and after taxes (cash flows) are as follows:

	Year 1	Year 2	Year 3	Year 4	Year 5
Project X	5000	10000	10000	3000	2000
Project Y	20000	10000	5000	3000	2000

20. The initial cash outlay of a project is ₹50,000 and it generates cash inflows of ₹20,000, ₹15,000, ₹25000, and ₹10000 in four years. Using present value index method, appraise profitability of the proposed investment assuming 10% rate of discount. (Present Value at 10 % : Year 1 – 0.909, Year 2 -0.826 , Year 3 – 0.751, Year 4 – 0.683, Year 5 – 0.621).

UNIT V

21. Explain about residual theory of dividend decision.
22. Formulate MM’s irrelevant approach of dividend decision
23. Outline the determinants of dividend policy.
24. Explain Gordon Model of dividend decision with assumption and criticism.
25. Outline Water’s Model of dividend decision with assumption and criticism