PG DEPARTMENT Of COMMERCE (CA)

QUESTION BANK

COURSE: M.Com (CA) **SEMESTER :** II

SUBJECT CODE: 18PCC206 **SUBJECT**: FINANCIAL MANAGEMENT

K1 LEVEL

1. Financial Management is mainly concerned with

(a) All aspects of acquiring and utilizing financial resources fo firms activities.

(b) Arrangement of fund.

(c) Efficient mgt of every business.

(d) Profit maximization. K1

2. Investment is the

(a) Net additional made to the Nationals capital stock.

(b) Person's commitment to buy a flat or house.

(c) Employment of fund on assets to earn returns.

(d) Employment of fund on goods and services that are used in k1

Production process.

3. The Primary goal of the financial mgt is

(a) to maximize the return
(b) to minimize the risk
(c) to maximize the wealth of owners
(d) to maximize profit **k1**

4. In his traditional role the finance manager is responsible for

(a) Proper utilization of fund
(b) Arrangement of financial resources
(c) Acquiring capital assets of the organization
(d) Efficient management of capital **k1**

5. Market value of the share decided by

(a) the respective companies
(b) the investment market
(c) the government
(d) shareholders k1

6. A company may issue capital from the primary market through

(a) Public issue
(b)Right issue
(c) Bought out deals
(d) All of the above k1

7. Which exchange members is assumed who is specific trading post?

(a) Commission broker
(b) Floor trader
(c) Specialist
(d) Dealer k1

8. A mixed rate of ----------- is payable on debenture

(a) Dividend
(b) Commission
(c) Interest
(d) Brokerage K1

9. According to traditional approach, the average cost of capital

(a) remain constant upto a degree of leverage
and rises sharply thereafter with every increase in leverage
(b) rises constantly with increase in leverage
(c) decreases upto certain point, remain unchanged for moderate increase in leverage
and rises beyond a certain point K1
(d) decrease at an increasing rate with increase in leverage

10. A computerized trading network that matches buy and sell orders electronically entered by

(a) National Market System
(b) Electronic Communication Network
(c) Internet investment service
(d) Global investment network K1

11. ownership securities are represented by

(a) stock
(b) loan
(c) debt
(d) debenture K1

12. The cost of capital of a firm is

(a) the dividend paid on the equity capital
(b) the weighted average of the cost of various long-term and short-term
(c) the average rate of return it must earn on its investment no satisfy, the various investor
(d) the minimum rate of return it must earn on its investment to keep its investors satisfied K1

13. Degree of total leverage can be applied in measuring change in

(a) EBIT to a percentage change in quantity
(b) EPS to a percentage change in EBIT
(c) EPS to a percentage change in quantity
(d) Quantity to a percentage change in EBIT K1

14. Investor can normally afford to assume larger risk in the phase of the lifecycle.

(a) Accumulation
(b) Consolidation
(c) Spending
(d) Gifting K1

15. The measure of business risk is--------------

(a) operating leverage

(b) financial leverage

(c) total leverage

(d) working capital leverage K1

16. ---------- is the most important investment decision because it determine the risk return characteristics of the portfolio.

(a) hedging
(b) market timing
(c) performance measurement
(d) asset allocation **K1**

17. The value of EBIT which EPS is equal to zero is known as

(a) Breakeven point

(b)Financial Breakeven Point

(c)Operating Breakeven Point

(d)Overall Breakeven Point K1

18. Which of the following is not a feature of an optimal capital structure?

(a) Safety
(b) Flexibility
(c) Control
(d) Solvency K1

19. The growth in book value per share show the ----------

(a) rise in share price
(b) increase in physical asset of the firm
(c) increase in net worth
(d) growth in reserve **K1**

20. The overall capitalization rate and the cost of debt remain constant for all degree of leverage. This is pronounced by ------------

(a)traditional approach
(b)net operating income approach
(c)net income approach
(d)MM approach K1

21. International investing is ---------

(a) is only practical for institutional investors
(b) increase the overall risk of a stock portfolio
(c) always lead to higher return than a domestic portfolio
(d) can reduce risk due to increase diversification K1

22. Which of the following is not an assumption in the MM approach

(a) there are no transaction cost
(b) securities are infinitely divisible
(c) investor have homogeneous expectation
(d) all the firm pay tax on their income at the same rate K1

23. Mr. A is a daring portfolio manager he want to increase the return in his portfolio. He should choose stock from ----------

(a) defensive industry
(b) industry at a growth stage
(c) industry in the maturity period
(d) industry with more export potential K1

24. ----------- factors lead to activity of stock market

(a) money supply
(b) per capital income
(c) unemployment rate
(d) manufacturing and trade K1

25. A price for equity is called

(a) interest rate
(b) cost of equity
(c) debt rate
(d) investment return K1

26.An initial cost is RS.6,000 and probability index is 5.6 then present value of case flow will be

a) Rs.25000
b) Rs.28000
c) Rs.33600
d) Rs.30000 K1

27.An Increase in marginal cost of capital and capital rationing two arising complications of

a) maximum capital budget
b) greater capital budget
c) optimal capital budget
d) minimum capital budget K1

28. In capital budgeting, a technique which is based upon discounted cash flow is classified as

a) net present value method
b) net future value method
c) net capital budgeting method
d) net equity budgeting method K1

29. In estimating value of cash flows, compounded future value is classified as its

a) terminal value
b) existed value
c) quit value
d) relative value K1

30.Cash flow which starts negative then positive than again positive cash flow is classified as

a) normal costs
b) non-normal costs
c) non-normal cash flow
d) normal cash flow K1

31.Bond which is used issued in market and few days are passed of its issuance is classified as

a) instable bond
b) outstanding bond
c) standing bond
d) stable bond K1

32. Real risk- free rate is applicable when it is expected that the will be

a) high inflation
b) low inflation
c) no inflation
d) none of above **K1**

33. Bonds that do not pay original coupon payment but payment is made from additional bonds are classified as

a) .payment in – kind bonds
b).payment off-kind bonds
c).kind payment
d).additional bond. K1

34.According to top rating agencies s&p double-B and other lower grade bonds are classified as

a).development bonds
b).junk bonds
c).compounded bonds
d).discounted bonds K1

35.Bond call provision that is not practiced even after several years of issuance is classified as

a).original provision
b).deferred call
c).deferred provision
d).permanent provision K1

36.In binomial approach of option pricing model, fourth step is to create

a).equalize domain of payoff
b).equalize ending price
c).riskless investment
d).high risk investment K1

37.current value of portfolio is RS 550 and to cover an obligation of call option is RS 200 then value of stock would be

a).RS 350.00
b).RS 275.00
c).Rs 750.00
d).RS 1000.00 K1

38.According to black schools model, purchaser can borrow fraction of security at risk free interest rate which is

a).short term
b).long term
c).transaction cost
d).no transaction cost K1

39.Type of option which cannot be exercised before an expiry date which is classified as

a).European option
b).American option
c).Australian option
d).money option K1

40.Input call parity relationship, put option minus call option in addition with stock is equal to

a).exercise price present value
b).exercise price future value
c).time line value
d).time value of bond K1

41.stocks which has lower book for market ratio are considered as

a).optimistic
b).more risky
c).less risky
d).pessimistic K1

42.An individual stock required return is equal to risk free rate plus bearing risk premium is an explanation of

a).security market line
b).capital market line
c).aggregate market line
d).beat market line K1

43.Future beta is needed to calculate in most most situations is classified as

a).historical beats
b).adjusted beats
c).stander beats
d).varied beats K1

44.An efficient set of portfolios represented through graph is classified as an

a).attained frontier
b).efficient frontier
c).inefficient frontier
d).unattained frontier K1

45.Rational traders immediately buy stock when price is

a).too low
b).too high
c).conditional
d).inefficient portfolio K1

46.Range of probability distribution with 99.74% lies within

a).(+3Q and -3Q)
b).(+4Q and -4Q)
c).(+1Q and -1Q)
d.(+2Q and -2Q) K1

47.Risk per unit of return or stand alone risk represented by

a).coefficient of standard
b).coefficient of return
c).coefficient of variation
d).coefficient of deviation K1

48.Risk on a stock portfolio which can be reduced by placing it in diversified portfolio is classified as

a).stock risk
b).portfolio risk
c).diversifiable risk
d).market risk K1

49.An amount invested is Rs 4000 and return is Rs 300 then rate of return will be

a).4.30%
b).3.70%
c).7.50%
d).0.08% K1

50.In capital asset pricing model, stock with high standard deviation tend to have

a).low variation
b).low beta
c).high beta
d).high variation K1

51.stock market theory which states that stocks are in equilibrium and impossible is classified as an

a).inefficient market hypothesis
b).efficient market hypothesis
c).efficient stock hypothesis
d).inefficient stock hypothesis K1

52.Growth in earning per share is primarily resultant of growth in

A).dividends
b).asset value
c).fundamental value
d).yearly value K1

53.In expected rate of return for constant growth, capital gains is divided by capital gains yield to calculated

a).returning price
b).ending price
c).beginning price
d).regular price K1

54.Stock which has fixed payment and failure of payment which do not lead to bankruptcy is classified as

a).common stock
b).preferred stock
c).bonds equity
d).common shares K1

55.An efficient market hypothesis states all public information which is reflected in current market prices is classified as

a).weak form efficiency
b).strong from efficiency

c).market efficiency

d).semi strong efficiency **K1**

56.corporations such as Citigroup, American express and fidelity classified as

a).financial services corporations

b).common service corporations

c).preferred service corporations

d).commercial service corporations K1

57.financial corporations which serve individual savers and commercial mortgage borrowers are classified as

a).savings associations

b).loans associations

c).preferred and common associations

d).savings and loans associations **K1**

58.A regulatory body which licenses broken and oversees traders is classified as

a).international firm of auction system

b).international association of network dealers

c).national firm of equity dealers

d).national association of securities dealers **K1**

59.Companies take savings as premium, invest in bonds and make payment to beneficiaries are classified as

a).debit unions

b).life insurance companies

c).credit unions

d).auto purchases K1

60.Federal government tax revenues if it exceeds government spending then it is classified as

a**).budget surplus**

b).budget deficit

c).federal reserve

d).federal budget K1

61. Document in a corporation which consists of amount of stock, name and addresses of directors is classified as

a).liability plan
b). stock planning
c).corporation paperwork
d). charter **K1**

62.A price for equity is called

a). interest rate
b).cost of equity
c). debt rate
d). investment return K1

63. Risk in which value of investment depends on what happens to foreign exchange rates is classified as

a).preferred risk
b). exchange rate risk
c).country risk
d). foreign risk K1

64. Numbers and employees of credit unions are loaned for

a). mortgages
b).home improvement loans
c). auto purchases
d).all of above **K1**

65. Ability to trade at net price very quickly is classified as

a).original trading
b).liquidity
c).offline trading
d).fixed price trading K1

66.which one of the following is not a money market securities?

a).treasury bills
b). national saving certificate
c). certificate of deposit
d). commercial paper K1

67.capital budgeting is related to

a). long terms assets
b).short terms assets
c).long terms and short terms assets
d).fixed assets K1

68.The expansion of CAPM is

a). capital amount pricing model
b). capital asset pricing model
c).capital asset printing model
d). capital amount printing model K1

69.working capital management is managing

a).short term assets and liabilities
b).long term assets
c).long term liabilities
d).only short term assts K1

70.The company's average cost of capital is

A).the average cost of equity shares and debentures
b).the average cost of equity preference shares
c).the average cost of shares and all sources of long term funds
d).the average cost of short term funds. K1

71.ownership securities are represented by

a).stock
b).loan
c).debt
d).debentures K1

72.The cost of capital of a firm is

a).the dividend paid on the equity capital

b).the weighted average of the cost of various long-term and short-term sources of finance

c).the average rate of return it must earn on its investments to satisfy the various investors

d).the minimum rate of return it must earn on its investments to keep its investors satisfied **K1**

73.IF an investor is attempting to buy a stock that is very volatile, it would be best to use

a).market order

b).limit order

c).stop-loss order

d).contingency order. **K1**

74.Net working capital refers to

a). total assets minus fixed asset

b).current assets minus current liabilities

c).current assets minus inventories

d).current assets K1

75.The constant growth model of equity valuation assumes that

a).the dividends paid by the company remain constant

b).the dividends paid by the company grow at a constant rate of growth

c).the cost of equity may be less than or equal to the growth rate

d).the growth rate is less than the cost of equity K1

76.The major problem with the Markowitz model is its

a).lack of accuracy

b). predictability flaws

c).complexity

d).inability to handle large number of inputs K1

77.The long-run objective of financial management is to

a).maximize earning per share
b). maximize the value of the firms common stock
c). maximize return on investment
d).maximize market share K1

78._____dividend promises to pay shareholder at future date

a).scrip
b).cask
c).stock
d).property K1

79.______ is concerned with the maximization of a firm's stock price.

a).shareholder wealth maximization
b).profit maximization
c).stakeholder welfare maximization
d).EPS maximization K1

80.The Markowitz model assumes most investors are

a).risk averse
b).risk neutral
c).risk seekers
d).risk moderators K1

81.Degree of total leverage can be applied in measuring change in

a).EBIT to a percentage change in quantity
b).EPS to a percentage change in EBIT
C).EPS to percentage change in quantity
d).Quantity to a percentage change in EBIT K1

82.Investors can normally afford to assume large risks in the ____ phase of the life-cycle.

a).accumulation
b).consolidation
c).spending
d).gifting K1

83.The measure of business risk is _____

a).operating leverage
b).financial leverage
c).total leverage
d).working capital leverage K1

84._______is the most important investment decision because it determines the risk-return characteristics of the portfolio.

a).hedging
b).market timing
c).performance measurement
d).asset allocation **K1**

85.The value of EBIT at which EPS is equal to zero is know as

a).break-even point
b).financial break-even point
c).operating break-even point
d).overall break-even point **K1**

86. price per share is RS 25 and cash flow per share is RS 6 then price to cash flow ratio would be

a).0.24 times
b).4.16 times
c).4.16%
d).24.00% K1

87.Low price for earning ratio is result of

a).low risky firms
b).high risky firms
c).low dividends paid
d).high marginal rate K1

88.profit margin=4.5%.assets turnover=2.2 times, equity multiplier=2.7 times then return on equity will be

a).26.73%
b).25.73%
c)9.40%
d).9.00% K1

89.Formula such as net income available for common stockholders divided by total assets is used to calculate

a).return on total assets
b).return on total equity
c).return on debt
d).return on sales K1

90.pricing per ratio is divided by cash flow per share ratio which is used for calculating

a).dividend to stock ratio
b).sales to growth ratio
c).cash flow to price ratio
d).price to cash flow ratio K1

91. Financial security that can be converted into cash at closing to their book value price are classified as

a).inventories
b).short-term investments
c).cash equivalents
d).long-term investment K1

92.Discounted cash flow analysis is also classified as

a).time value of stock
b).time value of money
c).time value of bonds
d).time value of treasury bonds K1

93.Prices of bonds will be decreased if as interest rates

a).rises
b).declines
c).equals
d).none of above K1

94.Right side of balance sheet states the

a).appreciated earnings
b).liabilities
c).assets
d).stocks earnings K1

95.wages and salaries of employees which company owns in this accounts are called

a).accrued expenses
b).accruals accounts
c).both A and B
d).zero liabilities K1

96.Bond risk premium is 3% and bond yield is 10.2% then cost of common stock will be

a).3.40%
b).13.20%
c).7.20%
d).30.60% K1

97.cost of new debt or marginal debt is also classified as

a).historical rate
b).embedded rate
c).marginal rate
d).both A and B K1

98.Bond yield is 12% and bond risk premium is 4.5% then cost of common stock would be

a).37.50%
b).7.50%
c).15.50%
d).2.67% K1

99**.**Forecast by analysts, retention growth model and historical growth rate are methods used for an

a).estimate future growth
b).estimate option future value
c).estimate option present value
d).estimate growth ratio K1

100.premium which is considered as difference of expected return on common stock and current yield on treasury bonds is called

a).current risk premium
b).past risk premium
c).beta premium
d).expected premium K1

K2 LEVEL

1.Define Financial Management K2

Ans: “Financial management is the application of the planning and control functions to the finance function

2.What are the objectives of financial management? K2

Ans: (i). Profit Maximisation. (ii)Wealth maximization

3.What are the types of Financial Decisions? K2

Ans: (i).Investment decisions (ii). Financial decisions (iii) Dividend decisions.

4. What are the long –term sources of fund? K2

Ans: Pref.share.,equity share.,reserve &surplus and loan.

5. What isFinancial control? K2

Ans: it consist of Application of control devices such as return on investment, BEP, Ratio analysis etc.

6. What are the aims of finance function K2

Ans: (i).Procurement of funds (ii).Efficient utilization of fund (iii).increasing Profitability. (iv). Maximising firm's value.

7. What is finance functions? K2

Ans: it is crucial for the smooth and successful running of a business. Only then, interest and dividend can be paid to lenders and shareholders.

8. What are the functions of Treasurer K2

Ans: (i). Provision of finance (ii). Investment relations (iii). Insurance (iv) investment (v).Receivable Management. (vi) inventory management.

9.What are the functions of Controller? K2

Ans: (i). Planning& Control (ii). Reporting & interpreting. (iii). Tax administration. (iv). Reporting to government (v). Protections of assets.(vi).Economical Appraisal.

10. Who is finance manager? K2

Ans: Vice-President or Director of the top management.

1 1 Define cost of capital K2

Ans: Solomon Ezra defines cost of capital as " the minimum required rate of earning or the cut-off rate of capital expenditures"

12. What is historical cost? K2

Ans: is the cost incurred in the past in procuring funds for the firm.

13. What is future cost? K2

Ans: it is the cost to be incurred in raising new funds and in financial decisions, future cost is more relevant than historical cost.

14.What is cost of debts? K2

Ans: interest Payable to debenture holders

15.What is Explicit cost ? K2

Ans: it is discount rate which total Present value of cash inflows is equal to the total present value of cash outflows.

16.What is composite cost? K2

Ans: " the combined cost of different sources of capital. it is weighted average cost of capital.

17. What is Marginal cost? K2

Ans: new or additional fund raised by the firm.

18. What is implicit cost? K2

Ans: it is opportunity cost. it is defined as the rate of return that will be if the particular project were accepted . it is the cost of the opportunity foregone in order to take of a particular project

19.What is cost of retained earning? K2

Ans: All the profit earned by a company are not distributed as dividend to shareholders. only use of thus fund to business purpose.

20. What is cost of equity capital? K2

Ans: it's market price per shares unchanged in the mark

21. What is capital structure? K2

Ans: ' To make upof its capitalization and it includes all long-term sources viz, loan, reserves and retained earning.

22.What is capitalization? K2

Ans: Total amount of long –term funds employed by the firm.

23. What is Financial structures? K2

Ans: 'the composition of the entire liabilities of the balance sheet(it include short-term and long term finance)

2 4.Define optimum capital structure K2

Ans: "The combination of debts and equity which maximizes the value of the firm"

2 5. State the types of theories of capital structure K2

Ans: (i) Net income approach (iii).The Traditional approach.

(ii)Net operating income approach (iv) M.M.Approach.

2 6. What is Leverage? K2

Ans: it is associated with financial activities and fixed cost of asset is called leverage.

27.State the financial leverage formula? K2

Financial leverage: contribution/EBIT.

28. What is financial leverage. K2

Ans: only associated with financial activities in leverage.

29.What is dividend? K2

Ans: one part of the profit distributed to the shareholders.

30. State the Form of dividend K2

Ans: (i) cash dividend (ii) stock dividend (iii).Property dividend. (iv) Bond dividend

31 . Define capital budgeting K2

Ans" a long term planning for making and financing proposed capital outlay"

32. What are the tools of capital budgeting K2

Ans: (i). pay back period. (ii).post pay back profitability (iii)post pay back profit

(iv) internal rate of return method

33.State the average rate of return formula? K2

Ans: ARR====average annual profit/orginal investment x 100.

34. What is cut-off rate?. K2

Ans: minimum rate which the management expects from any projrcts

35. What is Annual Cash Flows: k2

Ans: Net profits for the year xxxxx

Less: tax xxxxx

Profit after tax xxxx

Add: depreciation xxxx

Annual cash flow xxxx

36.What is internal Rate of reurn? K2

Ans: it is the rate of return at which total present value of future cash inflow is Equal to initial investment

37.What is Net present value method ? K2

Ans: Present value of inflows is calculated at the required rate of return and compared With the original investment. if the present value is higher than the original investment, the project can be selected otherwise rejected.

38.What is Excess value index? K2

Ans: the higher the profitability index, the more desirable is the investment.

Formula = Total Present value of cash inflow/Total present value of cash outflow X 100.

39.What is post pay back profit? K2

Ans: Annual cash inflows x (life of the asset – pay back period)

40. What is post pay back profit index formula? K2

Ans: Post pay back profit/initial investment x100

41 . What is working capital? **K2**

Ans: capital required for purchase of raw materials and for meeting the day-to-day expenditure on salaries, wages, rent , advertising etc is called working capital.

42.What is Fixed capital? **K2**

Ans: Capital required for purchase of fixed assets like land, building, plant machinery, office and office equipment is called fixed capital.

43.What is Gross working capital? **K2**

Ans: This represents amount of funds invested in current assets.

44. What is Net Working capital? **K2**

Ans: The net working capital is excess of current assets over current liabilities. Current liabilities are those claims which are expected to mature for payment with in an accounting year.

45. What is Paramanent Working capital? **K2**

Ans: it is the minimum amount of working capital required to ensure effective utilization of fixed assets and support the normal operations of the business.

46.What is Temporary working capital ? **K2**

Ans: it is intended to meet seasonal demands and some special exigencies. Variable working capital cannot be permanently employed gainfully in the business. Therefore, it may financed from short term sources.

47.What are the sources of working capital? **K2**

Ans: (i) .Financing of permanent working capital

(ii).Financing of temporary working capital.

48.What are the stages in operating cycle method? **K2**

Ans: (i). Raw materials (ii) work-in-progress (iii). Finished goods inventory Stages (iv). Debtors collections stages.

49. What are the methods of working capital? **K2**

Ans:(i) By determining the amount of current assets and current liabilities

(ii) Operating cycle method

50.What is trade credit ? **K2**

Ans: credit extended by the suppliers of goods in the normal course of business. Thecredit – worthiness of a firm and the confidence of its suppliers are the main basis of securing trade credit.

51. What is bank credit? **K2**

Ans: commercial bank are the most important sources of short term working capital. They provide working capital in the form of loans,cash credit and through discounting bills.

K3 LEVEL

1. Explain the objective of Financial Management K3

2. List out the various financial decisions in financial management ? K3

3. What are the advantages of wealth maximization? K3

4.Examine the functions of Treasurer and Controller. K3

5.Discuss the significance of finance function K3

6.State the significance of cost of capital? K3

7.Listout the various types of cost of capital. K3

8. What are the features of cost of capital K3

9.Enumorate compute the various special sources of fund K3

10.State the assumption of weighted average cost of capital K3

11.Explain the significance of capital structure K3

12. Explain the capital structure theories K3

13. Discuss the Arbitrage Process in M.M. theories of capital structures. K3

1 4.Distunguish between ‘financial leverage and operating leverage’ K3

1 5.State the form of dividend- Explain them. K3

16.The following particulars relating to a project:

Cost of project Rs 50,500

Annual cash inflow:	Rs
1st year	5,000
2nd year	20,000
3rd year	30,000
4th year	30,000
5th year	10,000

Year	1	2	3	4	5
P.V. factor at 10%	0.909	0.826	0.751	0.683	0.621

Calculate discounted pay back period. K3

17. Discuss the significance of capital budgeting. K3

18. Classify the merit and demerit of internal rate of return? K3

19. Explain the Methods of evaluating capital expenditure proposals K3

20. Elaborate the types of capital expenditure decisions? K3

21.Explain the various types of working capital. **K3**

22Explain the need for or object of working capital. K3

23. State the different sources of working capital available to the firm. **K3**

24.Explain the meaning and the objectives of cash management **K3**

25.Explain the following terms:

(i) Cash cycle (ii) Cash turnover (iii) Float **K3**

K4 LEVEL

1.Explain the ‘ the objectives of wealth maximization is superior to profit maximization’ - Do you Agree –Discuss. K4

2. Explain the approaches to financial management K4

3. What are the financial decisions? How do they involve risk-return trade off? K4

4.Discuss the organizations of finance function in a large organization. K4

5. Explain the relationship between finance function and other functions. K4

6.Explain the different methods of calculating the cost of capital? K4

7.Why debt is regared as the cheapest source of finance for a profit making firm? K4

8.How is the cost of zero coupon bonds determined? K4

9.How is cost of equity capital determined undrer CAPM? K4

10.The capital structure and after tax cost of different sources of funds are given below :

Sources fund	Amount Rs	Proportion to total	After tax cost %
Equity share capital	7,20,000	0.30	15
Retained earnings	6,00,000	0.25	14
Preference share capital	4,80,000	0.20	10
Debenturs	6,00,000	0.25	08

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

11.What are the factors influencing the determinant of capital structure. K4

12, What are the factors influencing the determinant of dividend policy K4

13.Distinguish between ‘Dividend policy and capital structure’-Explain K4

14.What is an optimum capital structure? Explain its essential features K4

15.Explain the EBIT-EPS Approach with a suitable example. K4

16.A Ltd Wants to purchase a plant for expanding its operations. The desired plant is available at Rs 3,00,000 in cash or Rs 4,50,000 to be paid in five equal annual instalments of Rs 90,000 each due at the end of each year. Assume if the required rate of return is 15% which option is preferable? Ignore taxes. K4

17. A machine costing Rs 11,00,000 has a life of 10 years at the end of which its scrap value is likely to be Rs 1,00,000.The firm’s cut off rate is 12% . The machine is expected to yield an annual profits after tax of Rs 1,00,000.Depreciation is charged on straight line basis for tax purposes. At 12% P.V. of rupee 1 received at the end of the 10^{th} year is 0.0322. calculate NPT. K4

18.National steel company is considering to invest in a project which cost Rs 2,50,000 and will require an increase in the level of inventories and receivables(working capital of Rs 1,25,000 over its life. The project will generate additional sales of Rs 2,50,000 and will require additional expenses of Rs 75,000 every year. The project has 5 years life . The firm’s cost of capital is 10% and is in the tax bracket of 50 %.

Assuming straight line method of depreciation should the project be accepted?

Given: Present value of an Annuity of Rs 1 at 10% for 5 years is 3.791. K4

19. Premier mills Ltd is considering two mutually exclusive investment for its expansion programme. Proposal X requires an investment of Rs 7,50,000 and cash operating cost of Rs 50,000 p.a. Proposal Y requires an investment of Rs 4,80,000 and cash operating cost of Rs

1,00,000 p.a.The life of the equipment in both the cases will be 12 years with no salvage value. The anticipated increase in revenue is Rs 1,50,000 p.a. in both investment proposals.The firm's tax rate is 35% and its cost of capital is 15% and depreciation is calculated on straight line basis.Which investment proposals should be undertaken by the company?

Given: Present value of an annuity of Re 1 at 15% fpr 12 years is 5.421. **K4**

20.The company X is forced to choose between two machines A & B .The two machines have identical capacity and do exactly the same job. Machine A costs 1,50,000 per year to run. Machine B is an economy model costing Rs 1,00,000 but will cash only for 2 years and cash operating costs Rs 60,000 per year to run. These are real cash flows. Opportunity cost of capital is 10%.ignore tax .Which machine the company X and Y Should buy?

Given: Present value of Annuity of Re 1 at 10% for 3 years is 2.486 and for years is 1.735. **K4**

21.Explain the technique that can be used to accelerate the firm's collections. K4

22.Discuss the various aspects or dimensions of receivable management **K4**

23.Explain the various tools and techniques used in inventory management **K4**

24.Discuss the various approaches to determine an appropriate financial mix of working capital? **K4**

25.From the following estimates, calculate the averages amount of working

Capital Required:

(i)	Average amount locked up in stock:	
	Stock of finished goods and work-in-progress	Rs 10,000
	Stock of stores, materials etc.,	Rs 8,000
(ii).	Average credit given :	
	Local sales 2 weeks credit	Rs 1,04,000
	Outside the states 6 weeks credit	Rs 3,12,000
(iii).	Time available for payments:	
	For purchase 4 weeks	Rs 78,000
	For wages 2 weeks	Rs2.60,000

A dd 10% to allow for contingencies **K4**

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