St.Joseph College of Arts and Science(Autonomous)
Cuddalore

PG and Research Department of Commerce
Question Bank
Financial Management (PCM806T) M.COM

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Part-A (2 Marks)

1. What is financial management?
2. What do you understand by time value of money?
3. Write short notes on effective rate of interest?
4. What is meant by rule of 72?
5. What do you know about annuity due?
6. What is capital budgeting?
7. What are the advantages of capital budgeting?
8. What are the components of capital budgeting analysis?
9. Write a short note on IRR methods?
10. What is meant by capital rationing?
11. What is meant by risk adjusted discount rate?
12. What do you meant by certainty-equivalent co-efficient?
13. What is decision tree analysis?
14. What is cost of capital?
15. Write a short note on marginal cost of capital?
16. What are the different types of cost of capital?
17. What are the components of cost of capital?
18. What is meant by financial planning?
19. Define the term capitalization?
20. What do you meant by over capitalization?
21. What is meant by capital structure?
22. What do you meant by optimum capital structure?
23. Write a short note on indifference point?
24. What is meant by leverage?
25. What do you mean by operating leverage?
26. What do you understand by financial leverage?
27. What is composite leverage?
28. What do you meant by dividend?
29. What is meant by dividend policy?
30. Write a short note on stable dividend policy?
31. What is meant by working capital?
32. What is fixed working capital?
33. What do you meant by variable working capital?
34. What is operating cycle?
35. Write a short note on cash cycle?
36. Write a short note on cash turnover?
37. What do you understand by cash management?
38. Give the meaning of cash?
39. What is meant by cash budget?
40. What do you mean by lock-box system?

41. What do you meant by trading on equity?
42. Define fixed capital?
43. Define working capital?
44. What is meant by explicit cost?
45. What is meant by implicit cost?
46. Define profitability index?
47. What do you meant by capital budgeting decision?
48. Define time value of money?
49. Define sinking fund?
50. What is meant by annuity?

Section - B (5 Marks)

51. Discuss the approaches to financial management?
52. Explain the objectives of financial management?
53. What are the various decisions and functions involved in financial management?
54. Calculate present value factors at 12% p.a for a period of 5years.
55. Calculate the future value of the following series of payments at the end of 4 years.
    Rate of interest is 9%
    P1=Rs. 1,500 at the end of first year
    P1=Rs. 3,000 at the end of second year
    P1=Rs. 4,500 at the end of third year
    P1=Rs. 6,000 at the end of fourth year
56. Shajita has entered into an agreement that will fetch her Rs.60,000 p.a. for the next 4 years. She wants to know the present value of the future cash inflows at 20% discount rate.
57. A company has to choose one of the following two mutually exclusive projects. Investment required for each project is Rs.1,50,000. Both the projects have to be depreciated on straight line basis. The tax rate is 50%.

Year	Profit before depreciation	
	Project X Rs.	Project Y Rs.
1	42,000	42,000
2	48,000	45,000
3	70,000	40,000
4	70,000	50,000
5	20,000	1,00,000

58. From the following data, calculate the payback period under simple cash flow approach as well as discounted cash flow approach:
    Project cost Rs.5,00,000
    Cash flows for 5 years (Project life) are:
    Rs. 1,00,000; Rs. 1,40,000; Rs. 2,00,000; Rs. 1,60,000 and Rs.1,20,000
    Appropriate discount rate for the project is 10%.
59. Nuksun Ltd. Which makes only one product, sells 10,000 units of its product making a loss of Rs. 10,000. The variable cost per unit of the product is Rs. And the fixed cost is Rs. 30,000.
    The company has estimated its sales demand as under:

Sales (units)	10,000	12,000	14,000	16,000	18,000
Probability	0.10	0.15	0.20	0.30	0.25

    What is the probability that the company will continue to make losses?
    What is the probability that the company will make a profit of atleast Rs.6,000.

60. Sakthi ltd. Issued 20,000 8% debentures of Rs. 100 each on 1st April 2009. The cost of issue was Rs. 50,000. The company's tax rate is 35%. Determine the cost of debentures (before as well as after tax) if they were issued, (a) at par; (b) at a premium of 10% and (c) at a discount of 10%.

61. Malaiya Ltd. Issued 60,000 15% irredeemable preference shares of Rs. 100 each. The issue expenses were Rs.60,000. Determine the cost of preference capital if shares are issued (a) at par; (b) at a premium of 10% and (c) at a discount of 5%.

62. The following information is available from the balance sheet of a company:

	Rs.
Equity share capital – 20,000 shares of Rs. 10 each	2,00,000
Reserves and surplus	1,30,000
8% debentures	1,70,000

The rate of tax for the company is 50%. Current level of equity dividend is 12%
Calculate the weighted average cost of capital using the above figures.

63. Discuss the scope and objects of financial planning?
64. Distinguish between fixed capital and working capital?
65. Discuss the theories of capitalization.
66. Anderson Ltd. Is considering two plan of finance a project costing Rs.50 lakh. The details are:

	Plan I Rs. In lakh	Plan II Rs. In lakh
Equity share capital (Rs. Per share)	20	25
12% Debentures	30	25
	50	50

Sales for the first three years of operations are projected at Rs.120, 150 and 180 lakhs respectively. EBIT is expected to be 15% of sales. Corporate taxation is 35%. Calculate the EPS in each of the plans for three years.

67. A new project requires an investment of Rs. 12,00,000. Two alternative methods of financing are under consideration:
    (i) Issue of equity shares of Rs.10 each for Rs. 12,00,000
    (ii) Issue of equity shares of Rs. 10 each for Rs. 8,00,000 and issue of 15% Debentures for Rs. 4,00,000

    Find out the indifference level of EBIT assuming a tax rate of 35%. Verify your answer.
68. Jennifer Ltd. Is expecting an annual EBIT of Rs. 2,00,000. The company has Rs.2,00,000 in 10% Debentures. The equity capitalization rate (ke) in 12%. You are required to ascertain the total value of the firm and overall cost of capital. What happens if the company borrows Rs. 2,00,000 at 10% to repay equity capital?
69. A firm sells its only product at Rs.12 per unit. Its variable cost in Rs.8 Per unit. Present sales are 1,000 units. Calculate the operating leverage in each of the following situations:
    I. When fixed cost is Rs. 1,000
    II. When fixed cost is Rs. 1,200
    III. When fixed cost is Rs. 1,500
70. Ascertain financial leverage from the information given below:
    Net worth : Rs.20,00,000
    Debt/Equity ratio : 3:1
    Interest rate = 10%
    Operating profit = Rs. 18,00,000
71. Buddha belly ltd. has a choice of the following three financial plans:

Equity share capital	6 lakh	5 lakh	2 lakh
10% Debentures	4 lakh	5 lakh	8 lakh
EBIT	2.5 lakh	2.5 lakh	2.5 lakh

You are required to ascertain the financial leverage in each case and interpret it.

72. The earnings per share of Nadal Ltd. are Rs.15 and the rate of capitalization applicable to the company is 12%. The productivity of earnings (r) is 12%.
    Compute the market value of the company's share if the payout is (i) 20%; (ii) 50% (iii) 70%. Which is the optimum payout?

73. Chetan Ltd. earns Rs. 50 per share.
    The capitalization rate is 15% and the return on investment is 18%.
    Under Walter's Model, determine
    (a) The optimum payout
    (b) The market price of the share at this payout
    (c) The market price of the share if payout is 40%
    (d) The market price of the share if payout is 80%

74. The following data relates to Yanina Ltd.
    Earnings per share = Rs.14
    Capitalisation rate = 15%
    Rate of return = 20%
    Determine the market price per share under Gordon's model if retention is (a) 40% (b) 60% (c)20%.

75. From the following information relating to Perara Ltd., calculate (a) Operarting cycle, (b) No. of operating cycles in a year assuming a 360 day year, and (c) Average working capital required, if annual cash operating expenses are Rs. 150 lakh.

Stock holding :	Raw material	:	2 months
	W.I.P	:	15 days
	Finished goods	:	1 month
	Average debt collection period	:	2 months
	Average payment period	:	45 days

76. Rose Ltd. is engaged in customer retailing. You are required to estimate its working capital requirements from the following data:

Projected annual sales	Rs. 9,00,000
Percentage of net profit to cost of sales	20%
Average credit allowed to debtors	1 month
Average credit allowed by creditors	2month
Average stock carrying (in terms of sales requirements)	2 ½ months
Add 10% to allow for contingencies	

77. Explain the two concept of Working Capital?

78. Ascertain whether the company has surplus or deficit cash balance from the data given below:

	Normal period	Peak period
Desired days of cash	6	3
Average daily outflow	Rs.30,000	Rs.50,000
Actual cash balance in hand	Rs.1,50,000	Rs.2,00,000

79. Calculate optimum cash balance under Baumol model from the particulars given below:

Annual cash requirement	:	Rs.1,50,000
Fixed cost per transaction	:	Rs.15
Interest rate on marketable securities	:	18%

80. From the following information, prepare a cash budget for June 2008:

	Rs.
Cash in hand on 1.6.2008	20,000
Cash purchases for June 2008	1,40,000
Cash sales for June 2008	2,00,000
Office expenses for June 2008	6,000
Interest payable in June 2008	2,000
Purchase of office furniture in June 2008	5,000

Section - C (10 Marks)

81. Explain briefly the relationship between financial management and other functional areas?
82. How the financial decision making involves risk-return trade off?
83. Calculate the maturity amount if Rs.2,00,000 is invested for years at 12% compounded – (a) annually, (b)semi- annually, (c) quarterly and (d) monthly.
84. Mr. Saravanan expects to receive Rs.20,000 at the beginning of each year for 4 years. Calculate the present value of the annuity due assuming an interest rate is 9%.
85. A company is considering two mutually exclusive projects X and Y. Project X costs Rs.30,000 and Project Y Rs. 36,000. You have been given below the NPV, probability distribution for each project:

Project X		Project Y	
NPV Estimate (Rs.)	Probability	NPV Estimate (Rs.)	Probability
3,000	0.1	3,000	0.2
6,000	0.4	6,000	0.3
12,000	0.4	12,000	0.3
15,000	0.1	15,000	0.2

(i) Compute the expected NPV of projects X and Y.

(ii) Compute the risk attached to each project i.e., standard deviation of each probability distribution.

(iii) Which project do you consider more risky and why?

(iv) Compute the profitability index of each project.

86. A company is considered a new project. The project would involve an initial investment of Rs. 1,20,000 in equipment which would have a life of 5 years and no scrap value. The selling price now (year 0) would be Rs. 60 and is expected to increase in line with the retail price index. Sales are expected to be constant at 2,000 units each year. The following estimates about unit cots are available.

Cost element	Cost at year 0 prices (Rs.)	Rate of increase
Wages Other	20 25	2% p.a. faster than retail prices in line with retail prices.
Total	45	

All transactions take place at yearly intervals on the last day of the year. No increase in working capital will be required. The following estimates of the rate of increase in retail prices and of interest rates are available:

Year	1	2	3	4	5
Rate of increase in retail prices (%)	15	20	25	40	30
Interest rate (%)	16	20	22	20	18

87. A company was recently formed to manufacture a new product. It has the following capital structure:

	Rs.
(i) 9% Debentures	10,00,000
(ii) 7% Preference shares	4,00,000
(iii) Equity shares (48,000 shares)	16,00,000
(iv) Retained earnings	10,00,000
	40,00,000

The market price of equity share is Rs.80. A dividend of Rs.8 per share is proposed. The company has marginal tax rate of 50% and shareholder’s individual tax rate is 25%. Compute after tax weighted average cost of capital of the company.

88. The following information has been extracted from the Balance sheet of Fashions Ltd. as on 31.12.94

Rs. In lakhs

Equity share capital	400
12% Debentures	400
18% Term loan	1,200
	2,000

(a) Determine the weighted average cost of capital of the company. It had been paying dividends at a consistent rate of 20% per annum.

(b) What difference will it make if the current price of the Rs.100 share is Rs.160?

(c) Determine the effect of income tax on the cost of capital under both premises (tax rate 40%).

89. Explain the importance and factors affecting financial planning?
90. Explain briefly the effects of under capitalization and over capitalization?
91. Logan Ltd. wants to raise Rs. 2,50,000 as additional capital. It has two mutually exclusive alternative financial plans. The current EBIT is Rs.8,50,000 which is likely to remain unchanged. The relevant information is:

    Present capital structure: 1,50,000 equity shares of Rs.10each and 10% Bonds of Rs.10,00,000

    Tax rate: 50%

    Current EBIT : Rs. 8,50,000

    Current EPS : Rs.2.50

    Current market price : Rs.25 per share

    Financial Plan I : 10,000 Equity shares at Rs. 25 per share

    Financial Plan II : 12% Debentures of Rs. 2,50,000

    You are required to calculate:

    (a) Earnings per share; (b) Financial B.E.P; (c) Indifference point between Plan I and Plan II.
92. Dewey Ltd., has an EBIT of Rs. 4,50,000. The cost of debt is 10% and the outstanding debt is Rs. 12,00,000. The overall capitalization rate (k_0) is 15%. Calculate the total value of the firm and equity capitalization rate under NOI approach.
93. Pierre Blondin Ltd. has sales of Rs. 12 lakh. The variable cost I 15% of sales, while the fixed cost amounts to Rs. 3,60,000. The amount of interest on long term debt is Rs. 1,20,000.

    You are required to calculate the combined leverage and illustrate its impact if sales increases by 10%.
94. A firm has sales of Rs. 15,00,000, variable cost of Rs. 9,00,000, fixed cost of Rs. 3,00,000 and debt of Rs. 8,00,000 at 8%.

    (i) Calculate its operating, financial and combined leverages.

    (ii) If the firm decides to double its EBIT, how much of a rise in sales would be needed on a percentage basis?
95. The following information is available in respect of Gill Ltd:

    Earnings per share : Rs.15

    Cost of capital : 10%

    Find out the market price of the share applying Walter Model under different rates of return of 8%, 10% and 15% for different payout ratios of 0%, 40% and 100%.
96. Du Preez Ltd. gives you the following information:

    Earnings per share : Rs.45

    Cost of capital : 18%

    Return on investment : 18%

    Ascertain the market value per share using Gordon's Model, if the payout is (a) 30%, (b) 60% (c) 90%.
97. Explain the dangerous of having excessive working capital in a firm.
98. Cost sheet of a company provides the following particulars:

    Elements of cost

Raw materials	: 40%
Labour	: 10%
Overheads	: 30%

The following particulars are also available:

(i) Raw materials remain in stock for 6 weeks

(ii) Processing time : 4 weeks

(iii) Finished goods are in stock for 5 weeks

(iv) Period of credit allowed to debtors : 10 weeks

(v) Lag in payment of wages : weeks

(vi) Period of credit allowed by creditors: weeks

(vii) Selling price : Rs.5 per unit

(viii) Production in units : 13,000 p.a.

Prepare an estimate of working capital.

99. Kingston Ltd, provides you the following information:

(i) Cash turnover ratio : 4.5 times

(ii) Annual cash outflow : Rs. 1,75,000

(iii) Accounts payable can be stretched by 20 days.

What would be the effect of stretching accounts payable on the minimum operating cash requirement? Assuming the firm can earn 12% on its investment, what would be the saving on cost?

100. X Ltd., is carrying on business of purchase and sale of an item. Selling price is Rs. 80 and Purchase price is Rs. 60. During Dec. 2007, Jan. 2008, Feb, 2008 and Mar. 2008, its sales were 300 units, 400 units, 500 units and 600 units respectively. 10% of sales are on cash basis and the balance on one month's credit basis. Its office expenses are Rs. 3,000 per month. Cash balance on 1.1.2008 Rs. 10,000. At the end of each month; the stock was nil.

Prepare a cash budget for the months of Jan., Feb and March 2008.