SRM VALLIAMMAI ENGINEERING COLLEGE

(An Autonomous Institution)

SRM Nagar, Kattankulathur – 603 203

DEPARTMENT OF MANAGEMENT STUDIES

QUESTION BANK

II SEMESTER

1915203 – FINANCIAL MANAGEMENT

Regulation – 2019

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Prepared by

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UNIT – I –FOUNDATIONS OF FINANCE			
Introduction to finance- Financial Management – Nature, scope and functions of Finance, organization of financial functions, objectives of Financial management, Major financial decisions – valuation of shares and bonds – Concept of risk and return – single asset and of a portfolio – Risk Analytics.			
PART- A			
S.NO	**QUESTIONS**	**BT LEVEL**	**COMPETENCE**
1	Define Financial Management.	Level 1	Remembering
2	Comment on the Scope of Traditional approach in Financial Management.	Level 2	Understanding
3	Identify the two aspects of financial management.	Level 3	Applying
4	A Rs.10, 000 per value bond bearing a coupon rate of 12% will mature after 5 years. Compute the value of bond, if the discount rate is 15%?	Level 4	Analysing
5	Discuss the objectives and goals of financial management.	Level 5	Evaluating
6	Interpret any four functions of finance manager in an organisation.	Level 6	Creating
7	What is Financing decision?	Level 1	Remembering
8	Distinguish Conventional and Modern approach of Financial Management.	Level 2	Understanding
9	How is the term finance more comprehensive than money management?	Level 3	Applying
10	Analyse the term profit planning.	Level 4	Analysing
11	How would you explain the term Risk?	Level 5	Evaluating
12	Interpret modern view on financial management.	Level 6	Creating
13	Define Risk analytics.	Level 1	Remembering
14	Compare Real Assets and Financial Assets.	Level 2	Understanding
15	How is bond different from equity?	Level 3	Applying
16	What inference can you make in analysing duration of Bond?	Level 4	Analysing
17	What is Risk Premium?	Level 1	Remembering
18	Differentiate Systematic Risk and Unsystematic Risk.	Level 2	Understanding
19	Define Yield to Maturity.	Level 1	Remembering
20	What do you mean by Portfolio Return?	Level 1	Remembering
21	State the decisions involved in Financial Management.	Level 5	Evaluating
22	Why is risk and return important?	Level 4	Analysing
23	Compare between single asset and portfolio.	Level 2	Understanding
24	What are the three method of valuation of shares?	Level 2	Understanding

<table>
<tr><th colspan="5">PART- B</th></tr>
<tr><th>S.NO</th><th colspan="2">QUESTIONS</th><th>BT LEVEL</th><th>COMPETENCE</th></tr>
<tr><td rowspan="2">1.</td><td>i) State and explain the functions of finance.</td><td>(4)</td><td rowspan="2">Level 1</td><td rowspan="2">Remembering</td></tr>
<tr><td>ii) The market price of Rs.1,000 par value bond carrying a coupon rate of 14 percent and maturing after 5 years in Rs.1050. What is the Yield To Maturity (YTM) on this bond? What is the approximate YTM?</td><td>(9)</td></tr>
<tr><td>2.</td><td>Discuss the features of shares and bonds.</td><td>(13)</td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>3.</td><td>Analyze the evolution of financial management.</td><td>(13)</td><td>Level 3</td><td>Applying</td></tr>
<tr><td>4.</td><td>List the various types of risk. Explain.</td><td>(13)</td><td>Level 4</td><td>Analysing</td></tr>
<tr><td>5.</td><td>How would you evaluate the organization of finance function?</td><td>(13)</td><td>Level 5</td><td>Evaluating</td></tr>
<tr><td>6.</td><td>“The goal of profit maximization does not provide an operationally useful criterion”- Explain</td><td>(13)</td><td>Level 6</td><td>Creating</td></tr>
<tr><td rowspan="2">7.</td><td>i) Define the concept of risk return trade off with diagram.</td><td>(7)</td><td rowspan="2">Level 1</td><td rowspan="2">Remembering</td></tr>
<tr><td>ii) A company’s current price of share is Rs.60 and dividend per share is Rs.4. If its capitalization rate is 12 per cent, what is the dividend growth rate?</td><td>(6)</td></tr>
<tr><td>8.</td><td>Mr.K has invested in equity shares. The probability and returns are given below. You are expected to calculate Average returns and Standard Deviation.
<table>
<tr><th>Returns</th><th>Probability</th></tr>
<tr><td>-15</td><td>0.05</td></tr>
<tr><td>-10</td><td>0.10</td></tr>
<tr><td>5</td><td>0.15</td></tr>
<tr><td>10</td><td>0.25</td></tr>
<tr><td>15</td><td>0.30</td></tr>
<tr><td>20</td><td>0.10</td></tr>
<tr><td>30</td><td>0.05</td></tr>
</table></td><td>(13)</td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>9.</td><td>Explain the concept of Profit Maximization and Wealth Maximization with examples.</td><td>(13)</td><td>Level 3</td><td>Applying</td></tr>
<tr><td>10.</td><td>What inference can you make from the three major decisions in financial management?</td><td>(13)</td><td>Level 4</td><td>Analysing</td></tr>
<tr><td>11.</td><td>A bond has 3 years remaining until maturity. It has a par value of Rs.1, 000. The coupon interest rate on the bond is 10%. How would you compute the yield to maturity at current market price of Rs.1, 100 assuming interest is paid annually?</td><td>(13)</td><td>Level 1</td><td>Remembering</td></tr>
<tr><td>12.</td><td>Explain the goals or objectives of financial management.</td><td>(13)</td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>13.</td><td>Analyse the value of a share for which the current dividend is Rs.3 and the annual growth rate is 5%. Assume a required rate of return of 10%. What will be the value of the share if the annual growth is8%?</td><td>(13)</td><td>Level 4</td><td>Analysing</td></tr>
</table>

<table>
<tr><td>14.</td><td>ABC company currently paying a dividend of Rs.2 per share. The dividend is expected to grow at a 15% annual rate for the three years, then at 10%rate of the next three years, after which it is expected to grow at a 5%rateforever.
(i) What is the present value of the share if the capitalization rate is9%?
(ii) If the share is held for 3 years, what shall be its present value?
<table><tr><td>Year</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td></tr><tr><td>PVF @ 9%</td><td>0.917</td><td>0.842</td><td>0.772</td><td>0.708</td><td>0.650</td><td>0.596</td></tr></table></td><td>(13)</td><td>Level 1</td><td>Remembering</td></tr>
<tr><td>15.</td><td>“The objective of wealth maximization is superior to profit maximization”. – Do you agree?</td><td>(13)</td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>16.</td><td>Mr.Vinod wants to buy an equity share and sell it after two years. The expected dividends at the end of the first year and second year are Rs.3 and Rs.4. The expected sale price of the share is Rs.250. Calculate the current price of the share, taking the required rate of return as 15%.</td><td>(13)</td><td>Level 3</td><td>Applying</td></tr>
<tr><td>17.</td><td>What is a portfolio? How is the return calculated on a portfolio of two securities?</td><td>(13)</td><td>Level 3</td><td>Applying</td></tr>
</table>

<table>
<tr><th colspan="5">PART – C</th></tr>
<tr><th>S.NO</th><th>QUESTIONS</th><th></th><th>BT LEVEL</th><th>COMPETENCE</th></tr>
<tr><td>1</td><td>Consider two securities X & Y. The return of the securities is given below:
<table><tr><th>Probability</th><th>Return X</th><th>Return Y</th></tr><tr><td>0.5</td><td>4</td><td>0</td></tr><tr><td>0.4</td><td>2</td><td>3</td></tr><tr><td>0.1</td><td>0</td><td>3</td></tr></table>The investor has decided to invest 1/3rd of investment in X and 2/3rd in Y. Find out (i) Portfolio return (ii) Co Variance (iii) Portfolio risk (iv) Correlation Coefficient.</td><td>(15)</td><td>Level 5</td><td>Evaluating</td></tr>
<tr><td>2</td><td>There are 3 securities X, Y, and Z. The returns are given as follows: - Select the securities based on risk and return. Calculate average returns, variance and standard deviation.
<table><tr><td>Security X</td><td>30</td><td>20</td><td>22</td><td>33</td><td>15</td></tr><tr><td>Security Y</td><td>-20</td><td>10</td><td>20</td><td>10</td><td>20</td></tr><tr><td>Security z</td><td>-20</td><td>-10</td><td>-5</td><td>10</td><td>30</td></tr></table></td><td>(15)</td><td>Level 5</td><td>Evaluating</td></tr>
</table>

<table>
<tr><td>3</td><td>The following table gives dividend and share price data for Hind Manufacturing Company.
<table><tr><th>Year</th><th>Dividend Per Share</th><th>Closing Share Price</th></tr><tr><td>2003</td><td>2.50</td><td>12.25</td></tr><tr><td>2004</td><td>2.50</td><td>14.20</td></tr><tr><td>2005</td><td>2.50</td><td>17.50</td></tr><tr><td>2006</td><td>3.00</td><td>16.75</td></tr><tr><td>2007</td><td>3.00</td><td>18.45</td></tr><tr><td>2008</td><td>3.25</td><td>22.25</td></tr><tr><td>2009</td><td>3.50</td><td>23.50</td></tr><tr><td>2010</td><td>3.50</td><td>27.75</td></tr><tr><td>2011</td><td>3.50</td><td>25.50</td></tr><tr><td>2012</td><td>3.75</td><td>27.95</td></tr><tr><td>2013</td><td>3.75</td><td>31.30</td></tr></table>You are required to calculate: (i) the annual rates of return, (ii) the expected (average) rate of return, (iii) the variance, and (iv) the standard deviation of returns.</td><td>(15)</td><td>Level 5</td><td>Evaluating</td></tr>
<tr><td>4</td><td>Critically examine how the finance function is typically organized in a Large Organisation.</td><td>(15)</td><td>Level 6</td><td>Creating</td></tr>
<tr><td>5</td><td>“Finance manager in a corporate enterprise has to perform a tight-rope dance, maintaining a nice balance between the objectives of liquidity and profitability.” – Comment and discuss the scope of business finance.</td><td>(15)</td><td>Level 6</td><td>Creating</td></tr>
</table>

<table>
<tr><th colspan="4">UNIT – II – INVESTMENT DECISIONS</th></tr>
<tr><td colspan="4">Capital Budgeting: Principles and techniques - Nature of capital budgeting- Identifying relevant cash flows - Evaluation Techniques: Payback, Discounted Payback, Accounting rate of return, Net Present Value, Internal Rate of Return, Profitability Index - Comparison of DCF techniques Concept and measurement of cost of capital - Specific cost and overall cost of capital.</td></tr>
<tr><th colspan="4">PART- A</th></tr>
<tr><th>S.NO</th><th>QUESTIONS</th><th>BT LEVEL</th><th>COMPETENCE</th></tr>
<tr><td>1</td><td>Define Capital Budgeting.</td><td>Level 1</td><td>Remembering</td></tr>
<tr><td>2</td><td>Distinguish Discounting and Non Discounting Techniques of Capital Budgeting.</td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>3</td><td>Identify any two important advantages of payback period method.</td><td>Level 3</td><td>Applying</td></tr>
<tr><td>4</td><td>What is the need for Capital Budgeting?</td><td>Level 4</td><td>Analysing</td></tr>
<tr><td>5</td><td>Determine the significance of Present Value Factor.</td><td>Level 5</td><td>Evaluating</td></tr>
<tr><td>6</td><td>Interpret Discounted PayBack Method.</td><td>Level 6</td><td>Creating</td></tr>
</table>

<table>
<tr><td>7</td><td>What is meant by Weighted average cost of capital?</td><td>Level 1</td><td>Remembering</td></tr>
<tr><td>8</td><td>Compare PayBack and Discounted PayBack Method.</td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>9</td><td>How would you measure the time value of money in capital budgeting?</td><td>Level 3</td><td>Applying</td></tr>
<tr><td>10</td><td>What are the merits of NPV method?</td><td>Level 4</td><td>Analysing</td></tr>
<tr><td>11</td><td>Determine about Floatation Costs in computing cost of capital.</td><td>Level 5</td><td>Evaluating</td></tr>
<tr><td>12</td><td>Interpret the adjusted NPV with NPV.</td><td>Level 6</td><td>Creating</td></tr>
<tr><td>13</td><td>What do you mean by Capital Rationing?</td><td>Level 1</td><td>Remembering</td></tr>
<tr><td>14</td><td>Determine the payback period from the following cash flows
<table>
<tr><td>Year</td><td>0</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>CFAT</td><td>100000</td><td>20000</td><td>30000</td><td>40000</td><td>50000</td><td>60000</td></tr>
</table></td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>15</td><td>Suppose the dividend per share of firm is expected to beRe.1 per share next year and is expected to grow at 6% per year perpetually. Determine the cost of equity capital, assuming the market price per share is Rs.25.</td><td>Level 3</td><td>Applying</td></tr>
<tr><td>16</td><td>Classify the various costs in computing the cost of capital.</td><td>Level 4</td><td>Analysing</td></tr>
<tr><td>17</td><td>Define Cost of capital.</td><td>Level 1</td><td>Remembering</td></tr>
<tr><td>18</td><td>Compare NPV & IRR.</td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>19</td><td>What are the features of ARR method?</td><td>Level 1</td><td>Remembering</td></tr>
<tr><td>20</td><td>Define Cost of Retained earnings.</td><td>Level 1</td><td>Remembering</td></tr>
<tr><td>21</td><td>What is meant by ‘Pay Back Period’?</td><td>Level 5</td><td>Evaluating</td></tr>
<tr><td>22</td><td>What are the components of cost of capital?</td><td>Level 4</td><td>Analysing</td></tr>
<tr><td>23</td><td>How do you calculate Weighted average cost of capital?</td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>24</td><td>Is DCF and NPV the same?</td><td>Level 2</td><td>Understanding</td></tr>
</table>

PART- B

S.NO	QUESTIONS		BT LEVEL	COMPETENCE
1	What are the various Capital Budgeting Techniques in selection of project proposals? Elaborate.	(13)	Level 1	Remembering
2	Capital expenditure decisions are by far the most important decisions in the field of management – Justify.	(13)	Level 2	Understanding

<table>
<tr><td>3</td><td>ii)A company is considering two mutually exclusive projects both require an initial cash outlay of Rs.10, 000 each and have a life of 5 years. The company's required rate of return 10% and pays tax at 50%. The project will be depreciated on a straight line basis. The before tax cash flows expected to be generated by the project are as follows.
Before tax cash flows
<table>
<tr><td>Year</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td>Project A</td><td>4,000</td><td>4,000</td><td>4000</td><td>4000</td><td>4000</td></tr>
<tr><td>Project B</td><td>5,000</td><td>5,000</td><td>2000</td><td>5000</td><td>5000</td></tr>
</table>
Calculate for each project i) PBP ii) NPV iii) PI. Which project should be accepted and why?</td><td>(13)</td><td>Level 3</td><td>Applying</td></tr>
<tr><td rowspan="2">4</td><td>i)Analyse the factors influencing Capital Budgeting decisions for a project.</td><td>(7)</td><td rowspan="2">Level 4</td><td rowspan="2">Analysing</td></tr>
<tr><td>ii)Can you assess the role of inflation in capital budgeting?</td><td>(6)</td></tr>
<tr><td>5</td><td>Machine X has a cost of Rs.75, 000 and net cash flow of Rs.20000 per year, for six years. A substitute machine Y would cost Rs.50, 000 and generate net cash flow of Rs.14000 per year for six years. The required rate of return of both machines is 11%. Calculate the IRR and NPV for the machines. Which machine should be accepted and why?
<table>
<tr><td>11%</td><td>12%</td><td>13%</td><td>14%</td><td>15%</td><td>16%</td><td>17%</td><td>18%</td></tr>
<tr><td>PVF 6thyear (4.231)</td><td>4.111</td><td>3.998</td><td>3.889</td><td>3.784</td><td>3.685</td><td>3.589</td><td>3.498</td></tr>
</table></td><td>(13)</td><td>Level 5</td><td>Evaluating</td></tr>
<tr><td rowspan="2">6</td><td>i) Explain Capital budgeting and discuss in detail the need and
Importanceof it.</td><td>(7)</td><td rowspan="2">Level 6</td><td rowspan="2">Creating</td></tr>
<tr><td>ii) Discuss the procedure for NPV method.</td><td>(6)</td></tr>
<tr><td rowspan="2">7</td><td>i) Analyse the important techniques used for decision making under risk and uncertainty in capital budgeting.</td><td>(7)</td><td rowspan="2">Level 1</td><td rowspan="2">Remembering</td></tr>
<tr><td>ii) A project costs Rs.20, 00, 000 and yields annually a profit of Rs.3, 00,000 after depreciation at 12.5% but before tax at 50%. Discover payback period.</td><td>(6)</td></tr>
<tr><td>8</td><td>GURU Ltd has paid up equity capital 60000 equity shares of Rs.10 each the current market price of shares is Rs.24. During the current year, the company has declared a dividend of Rs.6per shares. The company has also previously issued 14% preference shares of Rs.100 each aggregating Rs.3,00,000 at 5% discount and 13% debentures of Rs.100 each for Rs.5,00,000. The corporate tax rate is 40% the growth rate in dividends on equity shares is expected at 5%. Show the overall cost of capital of the company.</td><td>(13)</td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>9</td><td>i) How is cost of equity capital determined? Explain.</td><td>(7)</td><td>Level 3</td><td>Applying</td></tr>
</table>

	ii) How would you show your understanding on the concept of capital rationing?	(6)		
10	Discuss the steps involved in calculating overall cost of capital.	(13)	Level 4	Analysing
11	i) Janaki Ltd. issued 12,000 10% debentures of Rs.100 each at par. The tax rate is 50%. Find before tax and after tax cost of debt.	(7)	Level 1	Remembering
	ii) Suppose the dividend per share of firm is expected to be Rs.1.50 per share next year and is expected to grow at 6.5% per year perpetually. Determine the cost of equity capital, assuming the market price per shareisRs.30.	(6)		
12	How would you explain the factors influencing overall cost of capital of the firm?	(13)	Level 2	Understanding
13	Explain about Specific cost and overall cost of capital.	(13)	Level 4	Analysing
14	The following information has been taken from the balance sheet of Ram Co. as on 31-12-2016. Equity share Capital : Rs. 6,00,000 10%Debentures :Rs.6,00,000 15%term loan :Rs.18,00,000 Total Rs.30,00,000 Determine the weighted average cost of capital of the company. It has been paying dividends at a constant rate of 20% p.a. What difference will it make if the current price of Rs.100 share is Rs.200?	(13)	Level 1	Remembering
15	Explain how the cost of capital serves as a screening tool in capital budgeting decision.	(13)	Level 2	Understanding
16	Victory Ltd issued Rs.20,000 9% debentures at a premium of 10%. The floation costs (issue expenses) were 2%. The tax rate is 40%. Compute the cost of debt before tax and after tax.	(13)	Level 3	Applying
17	Jayasurya Ltd. issued Rs.60,000 10% debentures at a discount of 5%. The issue expenses were Rs.2,000. Assuming a tax rate of 40%, compute the before tax and after tax cost of debt.	(13)	Level 3	Applying

PART – C				
S.NO	**QUESTIONS**		**BT LEVEL**	**COMPETENCE**
1	Discuss the procedure for determining the weighted average cost of capital. What are the factors affecting weighted average cost of capital?	(15)	Level 6	Creating
2	Justify –"Superior ranking criterion is profitability index or NPV".	(15)	Level 6	Creating

<table>
<tr>
<td>3</td>
<td>You are required to calculate the overall cost of capital, from the following capital structure of a company.

1,000, 12% preference shares of Rs.100 each issued at par Rs.1,00,000 10,000 Equity shares of Rs.10 each issued at par Rs.1,00,000.

5,000, 10% debentures of Rs.100 each issued at par Rs.5,00,000

12% term loan Rs.2,00,000 Retained Earnings Rs.1,50,000

The market price of an equity share is Rs.30. The next expected dividend is Rs.3 per share and the dividend per share is expected to grow at 10%. The preference shares are redeemable after 7 years at par and are currently quoted at Rs.75 per share. The debentures are redeemable at par after 5 years and are quoted at Rs.90 per debenture. The tax rate applicable to the company is 40%.</td>
<td>(15)</td>
<td>Level 6</td>
<td>Creating</td>
</tr>
<tr>
<td>4</td>
<td>A firm finances all its investment by 40% debt & 60% equity. The estimated required rate of return on equity is 20% after tax and that of the debt is 8% after tax. Firm is considering an investment proposal costing Rs.40000with an expected return that will last forever. What amount must the proposal yield per year so that the market price does not change?</td>
<td>(15)</td>
<td>Level 5</td>
<td>Evaluating</td>
</tr>
<tr>
<td>5</td>
<td>The following particulars relate to two machines producing identical products.
<table>
<tr><td>Particulars</td><td>Machine A</td><td>Machine B</td></tr>
<tr><td>Original Cost</td><td>Rs.100,000</td><td>Rs.1,50,000</td></tr>
<tr><td>Working Life</td><td>5 years</td><td>5 years</td></tr>
<tr><td>Profit before Depreciation</td><td>Rs.</td><td>Rs.</td></tr>
<tr><td>I year</td><td>30,000</td><td>40,000</td></tr>
<tr><td>II year</td><td>15,000</td><td>45,000</td></tr>
<tr><td>III year</td><td>40,000</td><td>50,000</td></tr>
<tr><td>IV year</td><td>40,000</td><td>24,000</td></tr>
<tr><td>V year</td><td>35,000</td><td>71,000</td></tr>
<tr><td>Tax rate</td><td>50%</td><td>50%</td></tr>
</table>
a) Calculate Return on Investments
b) Calculate Average rate of return assuming that machines A and B have scrap values of Rs.10,000 and Rs.20,000 respectively at the end of the 5th year.</td>
<td>(15)</td>
<td>Level 5</td>
<td>Evaluating</td>
</tr>
</table>

UNIT – III – FINANCING AND DIVIDEND DECISION

Leverages - Operating and Financial leverage – measurement of leverages – Degree of Operating & Financial leverage – Combined leverage. Capital structure – Theories – Net Income Approach, Net Operating Income Approach, MM Approach - Determinants of Capital structure. Dividend decision - Importance, Relevance & Irrelevance theories – Walter's – Model, Gordon's model and MM model. – Factors determining dividend policy – Types of dividend policies – forms of dividend - Issues in Dividend Decisions.

PART- A

S.NO	QUESTIONS	BT LEVEL	COMPETENCE
1	Define Leverage.	Level 1	Remembering
2	Compare Financial and Operating leverage.	Level 2	Understanding
3	Identify the different forms of Dividend.	Level 3	Applying
4	What is Financial Leverage? State its significance.	Level 4	Analysing
5	Discuss the meaning of Dividend policy.	Level 5	Evaluating
6	Can you interpret the existence of Operating leverage in a firm's Capital Structure?	Level 6	Creating
7	Define operating and financial risk.	Level 1	Remembering
8	What is meant by debt equity ratio?	Level 2	Understanding
9	How do you calculate operating leverage?	Level 3	Applying
10	How does interest coverage ratio affect the Capital Structure?	Level 4	Analysing
11	Discuss the different forms of capital structure	Level 5	Evaluating
12	Interpret NOI and NI approaches in capital structure theory.	Level 6	Creating
13	Define dividend payout ratio.	Level 1	Remembering
14	Compare the different forms of dividend policy.	Level 2	Understanding
15	How would you show your understanding about trading on equity?	Level 3	Applying
16	State any two criticisms of MM approach of Capital structure theory.	Level 4	Analysing
17	Define Operating Leverage.	Level 1	Remembering
18	What is meant by financial distress?	Level 2	Understanding
19	Define Walter's model of Dividend.	Level 1	Remembering
20	Define composite leverage.	Level 1	Remembering
21	What is the objective of capital structure?	Level 5	Evaluating
22	What do you mean by dividend decision?	Level 4	Analysing
23	When should you issue dividends?	Level 2	Understanding
24	What are the features of capital structure?	Level 2	Understanding

PART- B

S.NO	QUESTIONS		BT LEVEL	COMPETENCE
1	i) Explain the various types of leverages with examples.	(7)	Level 1	Remembering
	ii) What is Modigliani-Miller approach to the problem of cost of Capital structure? Under what assumptions do their conclusion hold good?	(6)		

2	Show the operating leverage for Maruti Ltd., from the following information: No. of Units produced : 50,000 Selling price per unit: Rs.50 Variable cost per unit: Rs.20 Fixed cost per unit at current level of sales is Rs.15. What will be the new operating leverage, if the variable cost is Rs.30perunit?	(13)	Level 2	Understanding
3	Explain the different types of Dividend and its policy.	(13)	Level 3	Applying
4	What are the essentials of Gordon's model? Illustrate with an example. State the criticism against Gordon's model.	(13)	Level 4	Analysing
5	How would you summarize the factors to be considered in determining capital structure of a company?	(13)	Level 5	Evaluating
6	i) Examine the legal and procedural aspects of dividend according to Company's Act.	(7)	Level 6	Creating
	ii) Distinguish between operating and financial leverage.	(6)		
7	Explain MM approach of Capital Structure and its criticism.	(13)	Level 1	Remembering
8	i) Can you explain how to measure the degree of operating and financial leverage? Illustrate with an example.	(8)	Level 2	Understanding
	ii) How would you summarize the factors to be considered in determining capital structure of a company?	(5)		
9	i)Assume that there are 3 firms A, B, C. PARTICULARS A B C K 12% 12% 12% R 18% 12% 8% Eps(Rs) 10 10 10 Prove that changing dividend will affect the value of the firm according to Walter model. Use payout ratio 0%, 50%, 100%.	(10)	Level 3	Applying
	ii) What is Walter model?	(3)		

<table>
<tr><td>10</td><td>Find out operating, financial and combined leverages from the given data:
Sales 50,000 units at Rs.12 per unit.
Variable cost at Rs.8 per unit.
Fixed cost Rs.90, 000 (including 10% interest on Rs.2, 50,000).</td><td>(13)</td><td>Level 4</td><td>Analysing</td></tr>
<tr><td>11</td><td>Chetan Ltd. Earns Rs.50 pershare.
The capitalization rate is 15% and the return on investment is 18%. Under Walter’s Model, Determine
a) The optimum Pay-out
b) The market price of the share at this payout
c) The market price of the share if pay-out is40%.
The market price of the share if pay-out is 80%</td><td>(13)</td><td>Level 1</td><td>Remembering</td></tr>
<tr><td>12</td><td>A firm has sales of Rs.75, 00,000, variable cost of Rs.42, 00,000 and fixed cost of Rs.6, 00,000. It has a debt of Rs.45,00,000 @ 9% and equity of Rs.55,00,000
i) What is the firm’s ROI?
ii) Does it have favourable finance leverage?
iii) What are the operating, financial and combined leverages of the firm?
iv) If the sale drops to Rs.50, 00,000, what will be the new EBIT?
At what level will the EBT of the firm be equal to zero?</td><td>(13)</td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>13</td><td>The earnings per share of a company are Rs.10. It has an internal rate of return of 15 per cent and the capitalization rate of its risk class is 12.5 per cent. If Walter’s model is used: (i) What should be the optimum payout ratio of the firm? (ii) What would be the price of the share at this payout? (iii) How shall the price of the share be affected if a different payout were employed?</td><td>(13)</td><td>Level 4</td><td>Analysing</td></tr>
<tr><td>14</td><td>Calculate financial and operating leverage under situations when fixed costs are i) Rs.50000 ii) Rs.10000 and financial
plans 1 and 2 respectively, from the following information pertaining to the operation and capital structure of ABC Co. Total assets Rs.30000
Total assets turnover based on sales 2
Variable costs as percentage of sales
60
<table><tr><td>Capital</td><td>Financial Plan</td><td>Financial Plan</td></tr></table></td><td>(13)</td><td>Level 1</td><td>Remembering</td></tr>
</table>

	<table><tr><td>Structure</td><td>1</td><td>2</td></tr><tr><td>Equity</td><td>30000</td><td>10000</td></tr><tr><td>10% Debenture</td><td>10000</td><td>30000</td></tr></table>			
15	"Stock dividends represents merely a division of corporate pie into a large number of pieces". Comment.	(13)	Level 2	Understanding
16	Modern Manufacturing company has 10,000 equity shares of Rs.10 each outstanding on April 1, 2022. The shares are presently being quoted at par in the market. The company proposes to pay a dividend of Rs.5 per share for the current financial year. The company belongs to a risk-class whose appropriate capitalization rate is 15%. Using MM model and assuming no taxes, determine the price of the company's share as it is likely at the end of the year (i) when dividend is declared and (ii) When no dividend is declared.	(13)	Level 3	Applying
17	Bharati Ltd. expects an annual EBIT of Rs.1,00,000. The company has Rs.4,00,000 in 10% debentures. The equity capitalization rate is 12.5%. The company proposes to issue additional equity shares of Rs.1,00,000 and use the proceeds for redemption of debentures of Rs.1,00,000. Calculate the value of the firm (V) and the overall cost of capital (Ko).	(13)	Level 3	Applying

PART – C				
S.NO	**QUESTIONS**		**BT Level**	**Competence**
1	The following projections have been given in respect of company X and Y.<table><tr><td>Particulars</td><td>Company X</td><td>Com</td></tr><tr><td>Volume of Output and Sales</td><td>80000 units</td><td>1000</td></tr><tr><td>Variable Cost per Unit</td><td>Rs.4</td><td>Rs.3</td></tr><tr><td>Fixed Cost</td><td>Rs.240000</td><td>Rs.2</td></tr><tr><td>Interest burden on debt</td><td>Rs.120000</td><td>Rs.5</td></tr><tr><td>Selling price per unit</td><td>Rs.10</td><td>Rs.8</td></tr></table>On the basis of above information calculate (A) OL (B) FL (C) combined leverage (D) Operating BEP (E) financial BEP.	(15)	Level 5	Evaluating
2	A company has a total investment of Rs 5, 00,000 in assets, and 50,000 outstanding ordinary shares at Rs. 10 per share (par value). It earns a rate of 15 per cent on its investment, and has a policy of retaining 50 per cent of the earnings. If the appropriate discount rate of the firm is 10 per cent. Determine the price of its share using Gordon's model. What shall happen to the price of	(15)	Level 5	Evaluating

	the share if the company has a payout of 80 per cent or 20 per cent?			
3	Assume there are two firms, L and U, which are identical in all respects except that firm L has 10 per cent, Rs. 5,00,000 debentures. The earnings before interest and taxes (EBIT) of both the firms are equal that is Rs.1, 00,000.The equity-capitalisation rate(k_e) of firm Lishigher (16 per cent) than that of firm U (12.5 per cent).Also prove MM hypothesis.	(15)	Level 6	Creating
4	(i) Explain the assumptions and implications of Net Income approach (5marks) (ii) A company's expected annual net operating income (EBIT) is Rs. 50,000. The company has Rs. 2, 00,000, 10% debentures. The equity capitalisation rate (k_e) of the company is 12.5 per cent. Find the value of the firm & the overall cost of capital. (5marks) (iii) Let us suppose that the firm has decided to raise the amount of debenture by Rs. 1, 00,000andusetheproceedstoretiretheequityshares.The$k_i$andk_e would remain unaffected as per the assumptions of the NI approach. In the new situation, find the value of the firm.(5 marks)	(15)	Level 5	Evaluating
5	A company has 1,00,000, 10% debentures and 5,000 equity share of Rs.10 each . It is in 50% tax bracket. Calculate the EPS for each of the following levels of EBIT (a) Rs.50,000, (b) Rs.30,000 (c) Rs.70,000. Calculate the degree of financial leverage taking EBIT level of Rs.50,000 as present level.	(15)	Level 6	Creating

UNIT – IV –WORKING CAPITAL MANAGEMENT

Principles of working capital: Concepts, Needs, Determinants, issues and estimation of working capital Accounts Receivables Management and factoring - Cash management – Models -Working capital finance: Trade credit, Bank finance and Commercial paper.

PART- A

S.NO	QUESTIONS	BT LEVEL	COMPETENCE
1	Define Working Capital.	Level 1	Remembering
2	What are the different types of working capital?	Level 2	Understanding
3	Identify the various methods available for forecastingworking capital requirements.	Level 3	Applying
4	What do you mean by deposit float?	Level 1	Remembering
5	State the need for Cash Management.	Level 2	Understanding
6	Define Trade credit.	Level 1	Remembering
7	What do you mean by Factoring?	Level 1	Remembering
8	What is an operating cycle?	Level 2	Understanding
9	Recall about receivables forecasting.	Level 3	Applying
10	Why Working Capital Management is needed?	Level 3	Applying
11	What are the factors influencing current assets financing?	Level 3	Applying
12	What is your opinion about NWC?	Level 2	Understanding

13	Define credit evaluation.	Level 1	Remembering
14	Write about aging schedule.	Level 2	Understanding
15	Draw an operating cycle of working capital fora manufacturing company?	Level 3	Applying
16	Can you give a brief note on Treasury Bills?	Level 4	Analysing
17	Define Commercial Paper.	Level 1	Remembering
18	What do you mean by operating efficiency?	Level 2	Understanding
19	What is credit analysis?	Level 1	Remembering
20	List out the motives for holding cash.	Level 1	Remembering
21	Identify the need for Receivables Management.	Level 3	Applying
22	Write the assumptions of Baumol Cash Model.	Level 2	Understanding
23	What do you mean by aggressive approach of financing Working capital?	Level 2	Understanding
24	Write the implication of Miller Orr Model of Cash Management.	Level 2	Understanding

PART- B

S.NO	QUESTIONS		BT LEVEL	COMPETENCE
1	What are the various factors in determining Working Capital of a firm? Explain.	(13)	Level 1	Remembering
2	Explain the various approaches of financing Working capital.	(13)	Level 2	Understanding
3	Illustrate the process of Factoring.	(13)	Level 3	Applying
4	Elaborate Working capital cycle.	(13)	Level 4	Analysing
5	Write about Receivables Management.	(13)	Level 5	Evaluating
6	Examine the various issues in estimation of working capital?	(13)	Level 4	Analysing
7	i) What do you mean by Cash Management?	(8)	Level 1	Remembering
	ii) Write about Bank Credit.	(5)		
8	Write about i) Trade discount, ii) Commercial paper iii)Lock box system iv)Credit Policy variables	(13)	Level 2	Understanding
9	Explain the three principal motives for holding cash.	(13)	Level 3	Applying
10	Explain the various types of factoring.	(13)	Level 4	Analysing

11	PC ltd sells its product on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year ended 31.12.2011. • Sales @ 3 months credit40,00,000 • Raw material12,00,000 • Wages paid – average time lag 15 days9,60,000 • Manufacturing expenses paid – 1 montharrear 12,00,000 • Admin expenses paid in 1 month arrear48,0000 • Sales promotion expenses payable half yearly in advance 2,00,000 The company enjoys 1 month credit from the suppliers of raw material and maintains 2 months stocks of a Raw materials &1.5 month stock of a finished goods. The cash balance is maintained as Rs 10, 0000 as aprecautionary measure assuming a 10% margin. Find out the working capital requirement of PC Ltd.	(13)	Level 1	Remembering
12	From the following data prepare a statement showing requirement for Estimated output for the year 130000 units (52weeks) Stocks of R.M – 2 weeks & in process for 2weeks, 50% of wages & OH are incurred Finished goods remains in storage for 2week Creditors 2 weeks Debtors 4 weeks Outstanding wages and overheads 2 weeks each Selling price / units RS 15 Analysis of cost per unit is as below. Raw Material 5 Units Labour 3 Units Overheads 2 Units Profit 5 Units Find out the working capital requirement?	(13)	Level 2	Understanding
13	Analyse the types of bank finance for financing working capital? Briefly explain each one of them.	(13)	Level 4	Analysing
14	Elaborate the concept of Trade Credit and Bank financing for short term funding.	(13)	Level 1	Remembering
15	Elaborate about effective Working capital policy of a firm.	(13)	Level 4	Analysing
16	Can you list the various basic problems in the cash management?	(13)	Level 4	Analysing
17	Brief about Cash Management models proposed by Baumol and Miller Orr model.	(13)	Level 2	Understanding

<table>
<tr><th colspan="5">PART – C</th></tr>
<tr><th>S.NO</th><th>QUESTIONS</th><th></th><th>BT Level</th><th>Competence</th></tr>
<tr><td>1</td><td>Illustrate the methodology to raise working capital finance.</td><td>(15)</td><td>Level 2</td><td>Understanding</td></tr>
<tr><td>2</td><td>From the following information of VSGR Company Ltd., estimate working capital needed to finance a level of activity of 1,10,000 units of production after adding a 10 per cent safety contingency.
<table>
<tr><td>Raw material</td><td>Rs.78</td></tr>
<tr><td>Direct Labour</td><td>Rs.29</td></tr>
<tr><td>Overheads(excluding depreciation)</td><td>Rs.58</td></tr>
<tr><td>Totalcost</td><td>Rs.165</td></tr>
<tr><td>Profit</td><td>Rs.24</td></tr>
<tr><td>Selling price</td><td>Rs.189</td></tr>
</table>

Additional information:

i) Average raw materials in stock : one month

ii)Average materials–in process (50% completion stage):1/2month

iii) Average finished goods in stock: one

month

(iv)Credit allowed by suppliers: one month

v) Credit allowed to customers : Two months

vi) Time lag in payment of wages : one and half weeks

vii) Overhead expenses : one month

One fourth of the sales are on cash basis. Cash balance is expected to be Rs. 2, 15,000. You may assume that production is carried on evenly throughout the year and wages and overhead expenses accrue similarly.</td><td>(15)</td><td>Level 3</td><td>Applying</td></tr>
</table>

<table>
<tr>
<td>3</td>
<td>Calculate the working capital allow 10% contingencies

<table>
<tr><th></th><th>Cost per unit</th></tr>
<tr><td>Labourcost</td><td>Rs 20</td></tr>
<tr><td>Overheads</td><td>Rs.20</td></tr>
<tr><td>Raw Material Cost</td><td>Rs.100</td></tr>
<tr><td>TotalCost</td><td>Rs.140</td></tr>
<tr><td>Profit</td><td>Rs.60</td></tr>
</table>

Additional information:
➢ No. of units sold =25000 units
➢ Average Raw material stock ➢ 2 months
➢ Average work in process ➢ 1 month
➢ Finished goods ➢ 2 months
➢ One fourth of sales is on cash.
➢ Debtors 1 month
➢ Lag in wages 1/2 month
➢ Lag in payment to Creditors 1 month
➢ Lag in payment in overhead expenses 1/2 month
➢ Cash balance -Rs.1, 00,000</td>
<td>(15)</td>
<td>Level 4</td>
<td>Analysing</td>
</tr>
<tr>
<td>4</td>
<td>“Maintaining optimum working capital is required”- Justify. Discuss the consequences of inadequate or excess working capital.</td>
<td>(15)</td>
<td>Level 5</td>
<td>Evaluating</td>
</tr>
<tr>
<td>5</td>
<td>From the following information of XYZ Ltd., you are required to Calculate:
(a) Net operating cycle period.
(b) Number of operating cycles in a year.

(i) Raw material inventory consumed during the year Rs.6,00,000
(ii) Average stock of raw material Rs.50,000
(iii) Work-in-progress inventory Rs.5,00,000
(iv) Average work-in-progress inventory Rs.30,000
(v) Finished goods inventory Rs.8,00,000
(vi) Average finished goods stock held Rs.40,000
(vii) Average collection period from debtors 45 days
(viii) Average credit period availed 30 days</td>
<td>(15)</td>
<td>Level 5</td>
<td>Evaluating</td>
</tr>
</table>

	(ix) No. of days in a year 360 days			

UNIT – V –LONG TERM SOURCES OF FINANCE			
Indian capital and stock market, New issues market Long term finance: Shares, debentures and term loans, lease, Types of Lease, hire purchase, venture capital financing, Private Equity.			
PART- A			
S.NO	**QUESTIONS**	**BT LEVEL**	**COMPETENCE**
1	Define the term debenture.	Level 1	Remembering
2	Compare debenture and preference share capital.	Level 2	Understanding
3	What are the benefits of Long term sources of finance?	Level 3	Applying
4	List any four intermediaries associated with a company issue of capital.	Level 3	Applying
5	What is risk for venture capital firms?	Level 2	Understanding
6	What do you mean by preferential issues of securities?	Level 2	Understanding
7	What is New Issue Market?	Level 1	Remembering
8	Compare Hire Purchase and lease.	Level 2	Understanding
9	Analyze the term primary lease.	Level 3	Applying
10	What is pre-emptive right of equity shares?	Level 1	Remembering
11	What facts can you compile for the lease financing?	Level 2	Understanding
12	What do you mean by “Restrictive covenants”?	Level 1	Remembering
13	Define the internal financing of a firm.	Level 1	Remembering
14	What can you say about Venture Capital?	Level 2	Understanding
15	What do you mean by listing of securities?	Level 3	Applying
16	Can you make a distinction between term loans and bought out deal?	Level 2	Understanding
17	Define Hire purchase.	Level 1	Remembering
18	What is IPO?	Level 2	Understanding
19	What is private equity?	Level 1	Remembering
20	Why convertible debentures are issued?	Level 1	Remembering
21	Write the features of Primary market.	Level 3	Applying
22	Identify the need for Venture Capital.	Level 2	Understanding
23	List the various types of Lease.	Level 2	Understanding
24	Write about SEBI as a regulator.	Level 1	Remembering

PART- B				
S.NO	**QUESTIONS**		**BT LEVEL**	**COMPETENCE**
1	i) List the features of various long term sources of finance.	(8)	Level 1	Remembering
	ii) Recall the importance of long term sources of finance.	(5)		
2	Can you explain lease financing? How does it differ from a hire purchase? What are the cash flows consequences of a lease? Illustrate.	(13)	Level 2	Understanding
3	Write a detailed note on Indian Stock Market.	(13)	Level 3	Applying
4	Discuss the various procedure involved in obtaining a term loan.	(13)	Level 4	Analysing

5	Explain the features of Venture capital financing and the procedure to acquire finance.	(13)	Level 5	Evaluating
6	Elaborate the different classification of shares traded in stock exchanges.	(13)	Level 4	Analysing
7	Discuss the regulations given by SEBI to Venture Capital Finance.	(13)	Level 1	Remembering
8	Explain debenture financing and attractive features of a debenture.	(13)	Level 2	Understanding
9	Differentiate between Hire Purchase and lease financing with examples	(13)	Level 2	Understanding
10	Elaborate about Primary & secondary market and its intermediaries.	(13)	Level 4	Analysing
11	Explain in detail about New issues market.	(13)	Level 1	Remembering
12	Explain the criteria in evaluating term loan proposals and working capital proposals.	(13)	Level 2	Understanding
13	Distinguish Shares, Debentures and Venture capital finance.	(13)	Level 4	Analysing
14	Explain the types of lease financing.	(13)	Level 1	Remembering
15	List the differences between primary & secondary market.	(13)	Level 2	Understanding
16	How would you classify the various instruments through which venture capital investments is made?	(13)	Level 4	Analysing
17	How would you summarize the advantages and disadvantages of debt financing?	(13)	Level 3	Applying

PART – C				
S.NO	**QUESTIONS**		BT Level	Competence
1	Explore the current trends in Indian Capital market with specific reference to the secondary market.	(15)	Level 4	Analysing
2	Why the preference share is called a hybrid security? Do you agree that it combines the worst features of ordinary shares and bonds?	(15)	Level 5	Evaluating
3	Describe the SEBI regulations in IPO processing.	(15)	Level 4	Analysing
4	Do you agree that there is a significant growth in FDI equity inflows after the launch of “Make In India”? Critically examine the fact.	(15)	Level 5	Evaluating
5	Brief out the role of Private equity in India.	(15)	Level 4	Analysing