MUTHAYAMMAL ENGINEERING COLLEGE

(An Autonomous Institution)

(Approved by AICTE, New Delhi, Accredited by NAAC & Affiliated to Anna University)

Rasipuram - 637 408, Namakkal Dist., Tamil Nadu

Estd. 2000

DEPARTMENT OF MANAGEMENT STUDIES

QUESTION BANK

19MBB02-FINANCIAL MANAGEMENT
UNIT – I

PART A

1. Define financial management
2. What is annuity?
3. State the meaning of time value of money.
4. Write a note on profit maximisation napproach
5. Explain the Risk and return
6. Mention the functions of financial management.
7. Give the formula for the compound value of a single amount.
8. Distinguish between ordinary annuity and annuity due.
9. Explain the concepts of time value of money.
10. State the nature of financial management

PART B

11.i.Explain the mechanics of calculating the present value of compound value in detail.
ii.Explain about organization of financial management function.

12.i.Explain briefly the different types of risks.
ii.Explain in detail about the Time value of money and write formula whenever required.

13.i.What are the methods used to measure the risk and return of single asset and portfolio?
ii.“Financial manager is concerned with optimum utilisation of funds” -In this context explain the role of financial manager.

14.i.An investor deposits Rs.100 in a bank account for 5 years at 8% interest. Find out the amount which he will have in his account if interest is compounded

a) Annually
b) Semi annually
c) Quarterly
d) Continuously

ii.An investor has two options to choose from

e) Rs.6000 after a year
f) Rs.9000 after 4 years. Assuming a discount rate of 10% and 20%, which alternative he opt for?

15.i.An investor is 50 years of age today. He will retire at the age of 60. In order to receive Rs.2, 00,000 annually for 10 years after retirement, how much amount should he have at the time of retirement? Assume the required rate of return is 10%.

ii.The earnings of Fairgrowth Ltd. Were Rs.3 per share in year 1. They increased over a 10 year period to Rs.4.02. compute the rate of growth or compound annual rate of growth of the earnings per share**.**

PART C

Arun is a successful businessman in the paper industry. During his recent visit to his friend's place in Mysore, he was fascinated by the exclusive variety of incense sticks available there. His friend tells him that Mysore region in known as a pioneer in the activity of Agarbathi manufacturing because it has a natural reserve of forest products especially Sandalwood to provide for the base material used in production. Moreover, the suppliers of other types of raw material needed for production follow a liberal credit policy and the time required to manufacture incense sticks is relatively less. Considering the various factors, Arun decides to venture into this line of business by setting up a manufacturing unit in Mysore.
In context of the above case:

1. Identify the three factors mentioned in the paragraph which are likely to affect the working capital requirements of his busines

UNIT – II

PART- A

1. Define capital budgeting?
2. State the techniques of capital budgeting?
3. Compare the contrast of NPV with IRR.
4. State the techniques of capital budgeting.
5. List the stages of capital budgeting process.
6. What are the importances of capital budgeting?
7. State any two limitation of capital budgeting
8. Recall the difference between Internal Rate of Return and Net Present Value?
9. A project costing Rs1, 00,000 and yields annualy a profit of Rs16000 after depreciation at 12% p.a. but beforetax at 50%. Calculate payback period.
10. Calcualte the NPV for a project, which required intial investment of Rs20, 000 and which, involves a net cash inflow of Rs 6,000. Each year for 6 years. Cost of funds 8%

PART -B (13 marks)

11.i. Discuss briefly the techinques of capital budgeting with their merits and limitations.

ii. What is pay back method and explain the merits and demerits of payback method?

12.i.a)Write a short note on a) NPV b)ARR

b) What is the PV of Rs30000 due 3 years at a discount rate of 10%

ii.a) Discuss the significance of capital budgeting

b) State the process of capital budgeting.

13.i. a)Discuss briefly the computation of Net Present Value method and State its merits.

b) Discuss Compare and contrast Pay back period with IRR.

ii. A project costs Rs. 16,000 and is expected to generate cash inflows of Rs. 4,000 each for 5 years. Calculate the internal rate of return.

14.i.A company is contemplating investment in a project which requires an initial investment of Rs. 40,000 generating a cash flow of Rs. 16,000 every year for 4 years. Calculate the internal rate of return.

ii. A project is estimated to cost Rs. 16,200. It is expected to have a life of 3 years and generate cash inflows of Rs. 3,000, Rs. 7,000 and 6,000 respectively. Calculate the internal rate of return.

15. i.From the following information calculate Pay Back Period and Accounting Rate of Return.

Project	Original investment (Rs)	CFAT(Rs)	Economic life(years)
A	25,000	3,000	10
B	3,000	1,000	5
C	12,000	2,000	8
D	20,000	4,000	10
E	40,000	8,000	2

ii. A company has to choose one of the following two mutually executive projects. Investments required for each project is Rs1, 50,000.Both the projects have to be depreciated on straight line basis. Tax at the rate of 50% is to be provided. Calculate ARR.

Year	Project A(before depreciation)	Project B(before depreciation)
1	42000	42000
2	49000	45000
3	70000	40000
4	80000	50000
5	20000	100000

UNIT – III

PART- A

1. Define capital structure.
2. What is optimum capital structure? List out its features.
3. State the concept of cost of capital.
4. Mention the procedure for calculating the cost of debt.
5. Define: leverage
6. Define operating leverage.
7. What is trading on equity?
8. The capital structure of ABC limited consists of equity share capital of Rs. 1,00,000 (10,000 shares of Rs. 10 each) and 8% debentures of Rs. 50,000. You are required to calculate and verify the degree of financial leverage on earning before interest and tax (EBIT) level of Rs. 20,000.
9. List out the Factors to be conidered while calculating the cost of capital
10. A company's expected annual net operating income (EBIT) IS Rs 50000. The company has Rs 200000, 15% debentures. The equity capitalisation rate of the company is 12.5%. Calculate the value of firm.according to NI. Approach.

PART- B

11.i.Explain briefly the Modigiliani – Miller approach to capital structure.
ii.Explain the features of appropriate capital structure.

12.i.What are the factors determining capital structure?
ii.Explain EBIT-EPS approach for determining capital structure of a company?.

13.i. What is point of indifference? How do you compute?
ii.Write short note on
a) Net income approach and net operating income approach
b) Discuss the relationship between EBIT and EPS

14.i.Ltd. Has a share capital of Rs. 1,00,000 dividend into shares of Rs. 10 each. It has major expansion programme requiring an investment of another Rs. 50,000. The management is considering the following alternatives for raising this amount:

a. Issue of 5,000 equity shares of Rs. 10 each.
b. Issue of 5,000, 12% preference shares of Rs. 10 each.
c. Issue of 10% debentures of Rs.50,000.
d. The company's present earnings before interst and tax (EBIT) are Rs. 40,000 p.a. you are required to calculate the effect of each of the above modes on financing of the earnings per share (EPS) presuming:
e. EBIT continues to be the same even after expansion.
f. EBIT increases by Rs. 10,000

ii.Good shape Company has currently an ordinary share capital of Rs. 25 lakhs, consisting of 25,000 shares of Rs. 100 each. The management is planning to raise another Rs. 20 lakhs to finace a major programme of expansion through one of four possible financing plans. The options are:

a. Entirely through ordinary shares.
b. Rs. 10 lakhs through ordinary shares and Rs. 10 lakhs through long – term borrowings at 8% interest per annum.
c. Rs. 5 lakhs through ordinary shares and Rs. 15 lakhs through long – term borrowings at 9% interest per annum.
d. Rs. 10 lakhs through ordinary shares and Rs. 10 lakhs through long – term borrowings at 5% interest per annum.
e. The company's expected Earnings Before Interest and Tax (EBIT) will be Rs. 8 lakhs. Assuming a corporate tax rate of 50% determine the Earnings Per Share (EPS) in each alternative, and comment on the implications of financial leverage.

15.i.From the following capital structure of a company, calculate the overall cost of capital, using

a.Book value weights and (b) Market value weights

Source	Book value	Market value
Equity share capital (Rs. 10 shares)	Rs. 45,000	Rs. 90,000
Retained earnings	15,000	-
Preference share capital	10,000	10,000
Debentures	30,000	30,000

The after –tax cost of different sources of finance is as follows:
Equity share capital14%, Retained earnings13%, Preference share capital10%, Debentures5%.

ii.A company has following capital structure.

Common shares	Rs 40,00,000
6% preference shares	Rs10,00,000

8% debt	Rs30,00,000

The price of common share is Rs.20. it is expected that company will pay dividend of Rs2 per share for next year. This will prove at 7 % per year. Assume 50% taxrate. You are required to calculate weighted average cos of capital.

PART C

Computer Tech Ltd., is one of the leading information technology outsourcing services providers in India. The company provides business consultancy and outsourcing services to its clients. Over the past five years the company has been paying dividends at high rate to its shareholders. However, this year, although the earnings of the company are high, its liquidity position is not so good. Moreover, the company plans to undertake new ventures in order to expand its business.

In context of the above case:

1. Give any three reasons because of which you think Computer Tech Ltd. has been paying dividends at high rate to its shareholders over the past five years.
2. Comment upon the likely dividend policy of the company this years by stating any two reasons in support of your answer.

UNIT – IV

PART- A

1. Define dividend.
2. State the meaning of stock split?
3. Write short note on free reserve.
4. What do you understand by buy- back share?
5. Mention the various forms of Dividend?
6. List out any five objectives of stock dividend.
7. Write a short note on cash dividend
8. Specify the advantages of stable dividend Policy?
9. State the assumptions Walter's theory.
10. The following information is available in respect of a firm. Capitalisation rate equal to 10%, EPS Rs50, assume rate of return on investment12%.show the effect of dividend policy on market price of shares applying Walter's formula when pay out ratio is 20%.

PART- B

11.i.Explain in detail different forms of dividend policy.

ii.Explain the Factors affecting dividend Policy.

12.iWhat are the determinants of dividend policy?

ii.a) What are the various forms of dividend?

b) What is stock dividend and discuss the advantages of stock dividend to the company?

13.i.a)Illustrate the theory of dividend Policy

b) Explain theory of relevance and theory of irrelevance.

ii.a)Detail brief note on Walters model on Theory of dividend Policy

b) Discuss detail about Gordon's model of Dividend policy theory.

14.i.Details regarding three companies are given below:

A Ltd	B Ltd	C Ltd
R= 15%	R=10%	R= 8%
Ke= 10%	Ke= 10%	Ke=10%
E=Rs. 10	E=Rs. 10	E=Rs. 10

By using Walter's Model, you are required to: Calculate the value of an equity share of each of these companies when dividend pay – out ratio is (i) 20% (ii) 50% (iii) 0% and (iv) 100%.Comment on the result drawn.

ii.A Ltd. Has a share capital of 5000 equity share of Rs. 100 each having a market value of Rs. 150 per share. The company wants to raise additional funds of Rs. 1,20,000 and offers to the existing share holders the right to apply for a new share at Rs. 120 for every five shares held. (a)You are required to calculate the value of right. b)Valuation of a share ex – right.

15.i. Details regarding three companies are given below:

A Ltd	B Ltd	C Ltd
R= 15%	R=10%	R= 8%
Ke= 10%	Ke= 10%	Ke=10%
E=Rs. 10	E=Rs. 10	E=Rs. 10

By using Gordon's Model, you are required to:Calculate the value of an equity share of each of these companies when dividend pay – out ratio is (i) 20% (ii) 50% (iii) 0% and (iv) 100%.Comment on the result drawn.

ii.The following information is available in respect of the rate of return on investment(r), the capitalisation rate(Ke) and earning per share (E)of a manufacturing company.

R=12%, 11%, 10%

Ke= 11%, E= Rs 20

Determine the value of its shares, assuming the following

	D/P ratio	Retention Ratio
A	10%	90%
B	20%	80%
C	30%	70%
D	40%	60%

UNIT- V

PART- A

1. What are the important components of Working Capital?
2. Define working Capital
3. List out the components of current assets and current liabilities
4. Explain the operating cycle.
5. Define cash.
6. Mention the sources of Short term working capital.
7. Name various motives for holding inventories and cash.
8. "Working capital must be adequate but at the same time not excessive". Comment
9. What are the consequences of inadequate working capital?
10. Distinguish between fixed assets and current assets.

PART- B

11.i. What is working capital? Discuss the factors that can be considered while estimating working capital requirement of a business firm.

ii. What are the sources of working capital?

12.i. Distinguish between

a) Gross WC and Permanent WC
b) Variable WC and Permanent WC
c) Operating cycle and Cash cycle

ii. Specify the reasons for the necessity of working capital

13.i. What is meant by working capital management? What are the determinants of working capital needs of an enterprise?

ii. Explain of the following:

b. Gross and Net Concepts of Working Capital.
c. Trade Discount and Cash Discount.
d. Turnover ratios and their use in Working Capital Management.

14.i. What is meant by 'Operating Cycle Concept' in management of working capital?

ii.From the following information, extracted from the books of a manufacturing company, compute the operating cycle in days and the amount of working capital required:

e.	Period covered	365 days
f.	Average period of credit allowed by suppliers	16 days
g.	Average Total of Debtors Outstanding	480
h.	Raw Material Consumption	4,400
i.	Total Production Cost	10,000
j.	Total Cost of Sales	10,500
k.	Sales for the year	16,000
l.	Value of Average Stock maintained:	
m.	Raw Material	320
n.	Work-in-progress	350
l.	Finished Goods	260

15.i.. From the following information, you are required to estimate the net working capital of M/S Arjun chemicals Ltd.

particulars	Cost per unit (Rs)
Raw material	**40**
Direct labour	**15**
overheads	**30**
	85

Additional information:

1. Selling price per unit Rs100 per unit
2. Output 5,200 units
3. Rawmaterial in stock – Average 4 weeks
4. Work-in-progress(Assume 50% completion stage with full material consumption)- 4 weeks
5. Finished goods in stocks – average 4 weeks
6. Credit allowed to customers – average 8 weeks
7. Credit allowed by suppliers average 4 weeks
8. Cash at bank is expected to be Rs5,000.

Assume that production is sustained evenly during the 52 weeks of the year. All sales are on credit basis.

ii.. Proforma cash sheet of the company provide the following particulars

Material 40%, Direct labour 20%, Overheads 20%

The following information is also available

1. It is proposed to maintain a level of activity of 2, 00,000 units.
2. Selling price is Rs 12 per unit

3. Rawmaterials are expected to remain in store for an average period of one month
4. Materials will be in processon an average of a month.
5. Finished goods are required to be in stock on an average period of one month.
6. Credit allowed to debtors is two months.
7. Credit allowed by suppliers is one month. Estimate working capital required.