BON SECOURS COLLEGE FOR WOMEN, THANAJVUR
PG & RESEARCH DEPARTMENT OF COMMERCE

TITLE OF THE PAPER : FINANCIAL MANAGEMENT
SUBJECT CODE : 16CCCCM13
CLASS : III B.Com

PART –A (Two Marks)

UNIT – I

1. What is finance?
2. What is Financial Management?
3. What is profit maximization?
4. What is time value of money?
5. What is cost of capital?
6. What is meant by cost of debt?
7. What is meant by irredeemable debt?
8. What is redeemable debt?
9. What is meant by cost of equity capital?
10. What is meant by cost of retained earnings?

UNIT – II

1. What is financial planning?
2. What is capitalization?
3. What is over capitalization?
4. What is meant by under capitalization?
5. What is capital structure?
6. What is capital structure planning?
7. What is unlevered firm?
8. What is levered firm?
9. What is traditional approach?
10. What is meant by NOI approach?

UNIT – III

1. What is meant by leverage?
2. What is operating leverage?
3. What is financial leverage?
4. What is meant by combined leverage?
5. What is meant by dividend?

6. What is Dividend policy?
7. What is Bonus share
8. What are stock Splits?
9. What is meant by generous dividend policy?
10. What is erratic dividend policy?
11. What is stable dividend policy?

UNIT – IV

1. What is working capital?
2. What is meant by working capital management?
3. What is cash?
4. What is cash management?
5. What is meant by cash budget?
6. What is fixed capital?
7. What is cash planning?
8. What is Gross working capital?
9. What is net working capital?
10. What is Lock box system?
11. What is concentration banking?

UNIT – V

1. What are receivables?
2. What is meant by receivable management?
3. What is inventory?
4. What is inventory management?
5. What is ABC analysis?
6. What is VED analysis?

PART –B (Five Marks)

UNIT – I

1. Discuss the approach of Financial Management.
2. State the functions of Financial Management.
3. Enumerate the scope of Financial Management.
4. Illustrate the functions of the controller.
5. State the functions of the Treasurer.
6. Discuss the importance of cost of capital.
7. State the features of coast of capital.

8. Sree Ganesh invests Rs.10000 at an interest rate of 10%. The interest is compounding annually. Calculate the compound value.
9. Calculate the future value Rs.15, 000 invested now for a period of 5 years at a time preference rate of 9%.
10. Mohan wants to double his investment. How long will it take if the interest rate is a) 9% b) 8%. Give your answer using Rule of 72.
11. Calculate the rate of interest if the period of doubling of an investment is a) 6 Years b) 4 Years.
12. Srinath expects to receive the following payments.

Period	O Year	I Year	II Year	III Year
Amount	1000	1000	1000	1000

13. Calculate the present value of Rs 6,000
    a) Received one year from now
    b) Received at the end of 5 years
    c) Received at the end of 15 years.

    Assume a 5% time preference rate. Make use of the present value tables.
14. Calculate the present value of the following cash inflows if the rate of interest is 10%.

Year	1	2	3	4	5
Amount	5000	6000	70000	8000	9000

15. The expected cash flows are as follows.

Year	1	2	3	4	5
Cash flows	5000	10,000	10,000	4,000	3,000

    Discount rate is 12%. Find out the present value of cash flows using present value table.
16. Mr.Kasi expects to receive Rs.50, 000 per year for five years. Calculate the present value of annuity, if the rate of return on investment is 12%.
17. Sri Ganesh Industries Ltd issues 5,000 12% debentures of Rs.100 each at par. The tax rate is 40%. Calculate before tax and after tax cost of debt.

18. Victory Ltd issued Rs.2, 00,000 9% debentures at a premium of 10%. The flotation costs (issues expenses) were 2%. The tax rate is 40%. Compute the cost of debt before tax and after tax.
19. Jayasurya Ltd issued Rs.60, 000 10% debentures at a discount of 5%. The issue expenses were Rs.2, 000. Assuming a tax rate is 40%. Compute the before tax and after tax cost of debt.
20. Venus Ltd. Issued 10, 000 9% debentures of Rs.100 each at a premium of 5%. The maturity period is 5 years and the tax rate is 50%. Compute the cost of debentures to the company if the debentures are redeemable at par.
21. A firm issues debentures of Rs.1, 00,000 and realizes Rs.98000 after allowing 2% commission to brokers. The debentures carry on interest rate of 10%. The debentures are due for maturity at the end of the 10^{th} year.
22. Sun rise Ltd issues, Rs.50, 00, 000 12% redeemable debentures at a discount of 10%. The flotation costs are 4% and the debentures are redeemable after five years. Calculate before tax and after tax cost of debt assuming a tax rate of 40%.
23. A company issues one core equity shares Rs.100 each at a premium of 10%. The company has been consistently paying a dividend of 18% for the past five years. It is expected to maintain the dividend in future also.
    a) Compute the cost of equity share capital.
    b) What will be the cost of equity capital if the market price of the share is Rs.200?
24. A company's cost of equity capital (Ke) is 15%. The average tax rate of shareholders is 40% and the brokerage cost for purchase of securities is 2%. Calculate the cost of retained earnings.

UNIT – II

1. What are the objectives of financial planning?
2. State the scope of financial planning.
3. Discuss the features of sound capital structure.
4. Krishna Ltd is expecting an annual EBIT of Rs.2, 00, 000. The company has Rs.7, 00,000 in 10% debentures. The cost of equity capital or capitalization rate is 12.5%. You are required to calculate the total value of the firm. Also ascertain the overall cost of capital under the NI approach.
5. Annapurna Steel Ltd has employed 15% Debt of Rs.24, 00,000 in its capital structure. The net operating income of the firm is Rs.10, 00,000 and has an equity capitalization

rate of 16%. Assuming that there is no tax, find out the value of the firm under the NI approach.

6. Rudra Ltd is expecting an annual earnings before the payment of interest and taxes of Rs.2 Lakh. The company in its capital structure has Rs.8 lakh in 10% debentures. The cost of equity or capitalization rate is 12.5%. You are required to calculate the value of the firm according to NI approach. Also compute the overall cost of capital.
7. Blue sky Ltd has an EBIT Rs.2,00,000. The cost of debt is 10% and the outstanding debt is R.9, 00,000. The overall capitalization rate (ko) is 12.5%.calculate the total value of firm (V) equity capitalization rate (Ke) under NOI approach.
8. Skylekha Ltd., has an EBIT of Rs.2, 50,000. The cost of debt is 8% and the outstanding debt is Rs.10, 00, 000. The overall capitalization rate (Ke) is 12.5%. Calculate the total value of the firm and equity capitalization rate under NOI approach.
9. Sun Ltd., expects a net operating income of Rs.2, 40,000. It has Rs.12, 00, 000 10% debentures. The overall capitalization rate is 15%. Calculate the value of the firm and cost of equity according to the NOI approach.
10. Two firms U and L are identical in all respects expect the degree of leverage. Firm U does not use any debt in its financing (UL). Firm L has 6% debentures of Rs.5, 00, 000 (Levered). The firms have earnings before interest and tax (EBIT) of Rs.1, 50,000 and the equity capitalization rate is 10%. Assuming the corporation tax at 40%, calculate the value of the firm using MM approach.

UNIT – III

1. State the types of leverage.
2. State the significance of Operating leverage.
3. State the significance of financial leverage.
4. State the significance of combined leverage.
5. Enumerate the types of dividend.
6. Illustrate the types of dividend policy.
7. Difference between Bonus Share and Stock splits.
8. Calculate the operating financial and combined leverages from the following information:

Sales	Rs.50000
Variable cost	Rs.25000
Interest	Rs.5000

Fixed cost Rs.15000

9. The operating and cost data of Ashok Ltd., are as follows:

   Sales 40000 units at Rs.10 P.U

   Variable cost at Rs.7.50 P.u

   Fixed Cost Rs.80000 (Including 15% interest on Rs.200000)

   Calculate the operating, Financial and Combined Leverages.

10. Calculate the operating and financial leverages from the following particulars:

   Unit Sold 5000

   Selling price P.U Rs.30

   Variable cost per unit Rs.20

   EBIT Rs.30000

   10% Public Debt Rs.100000.

11. Calculate Operating leverage for Maruthi Ltd., from the following Information:

No. of units produced	Rs.50000
Selling Price per Unit	Rs.50
Variable Cost	Rs.20

   Fixed cost per unit at current level of sales Rs.15. What will be the new operating leverage, if the variable cost is Rs.30 per Unit.?

12. From the following information, calculate operative leverage?

   No. of units produced and sold 30000

   Selling price unit Rs.20

   Variable cost per unit Rs.10

   Fixed cost per unit at current level of sales Rs.5. What will be the new operating leverage, if the variable cost is Rs.12 per Unit.?

13. The capital structure of Bata Ltd., consists of Equity share capital of Rs.100000 and 8%, Debentures of Rs.50000. The fixed cost are Rs.10000. You are required to calculate the operating and financial leverages when earnings before interest and tax are Rs.20000.

14. A firm sells its only product at Rs.12 per unit. Its variable cost is Rs.8 per unit. Present sales are 1000 units. Calculate the operating leverage in each of the following situations:

   I) When fixed cost is Rs.1000.

   II) When fixed cost is Rs.1200

   III) When fixed cost is Rs.1500.

15. Compute the operating, Financial and combined leverages from the given data:

    Sales 50000 units at Rs.12 Per unit

    Variable Cost at Rs.8 per unit

    Fixed cost Rs.90000 (including 10% interest on Rs.250000).

16. The capital structure of Baji Ltd. consists of Equity share capital of Rs.500000 and 9% debentures of Rs.250000. the fixed cost is Rs.50000. you are required to ascertain operating leverage and financial leverage when EBIT is Rs.100000.

17. The following information relates to Vignesh Ltd.,

Earnings per share	Rs.9
Internal rate of return	18%
Cost of capital	12%
Payout ratio	33.33%

    Compute the market price under the Walter's model.

18. Joy Ltd., earns Rs. 5 per share. The company is capitalized at a rate of 10% and has a return on investment of 18%. According to Walter's formula, what should be the price per share at 25% dividend payout ratio?

19. The earnings per share of a company is Rs.12. The cost of equity capital is 10%. The rate of return on investments is 15%. Compute the market price per share under Walter's model, if the payout ratio is a) 50% b) 75%.

20. The following information relates to Sunlight Ltd.,

Earnings per share (EPS)	Rs.10
Return on investment (r)	12%
Cost of capital (k)	12%
Payout ratio	40%

    Determine the market price per share using Walter's approach.

21. The following data release to Jasmine Ltd., Earning per share Rs.4. Retention ratio (b) 25%; capitalization rate (k) 15%; rate of return (r) 20%. Determine the market price per share under Gordon's model.

22. The following information relates to Rose Ltd., Earning per share (EPS) R.10; Cost of capital (k) 10%; Rate of return (r) 15%. Determine the market price per share under Gordon's model if retention is a) 60% b) 40% c) 10%.

23. The following information relates to Titan Ltd.,

    Rate of Return (r) 10%

    Earnings per share (e) Rs.20

Ascertain the market price per share in the following cases, using Gordon's model.

Dividend payout (1-b) %	***Retention (b) %***	***Cost of equity % (k)***
40	60	18
60	40	16
80	20	14

UNIT – IV

1. State the types of working capital.
2. State the need of working capital.
3. What is operating cycle of working capital?
4. Enumerate the methods preparing cash budget.
5. From the following Balance sheet compute a) Gross Working capital & b) Net Working Capital

Balance Sheet as on 31.12.05

Liabilities	***Rs***	***Assets***	***Rs***
Share capital	600000	**Fixed Assets:**	
Reserves	100000	Land & Building	300000
Debentures	300000	Plant & machinery	400000
Current Liabilities:			
Bank loan	100000	**Current Assets:**	
Creditors	60000	Cash	60000
Bills payable	40000	Investments	100000
		Debtors	140000
		Inventory	200000

6. From the following Balance sheet compute a) Gross Working capital & b) Net Working Capital

Balance Sheet

Liabilities	***Rs***	***Assets***	***Rs***
Share capital	1350000	Fixed Assets	1050000
Reserves	150000	**Current Assets:**	
Bank loan	150000	Cash	240000
Creditors	150000	Stock	

			510000
	1800000		**1800000**

7. From the following Balance sheet compute a) Gross Working capital & b) Net Working Capital

Balance Sheet as on 31.12.05

Liabilities	***Rs***	***Assets***	***Rs***
Share capital	675000	Fixed Assets	525000
Reserves	75000	**Current Assets:**	
Current Liabilities:		Cash	45000
Bank loan	75000	Investments	75000
Creditors	45000	Debtors	105000
Bills payable	30000	Inventory	150000
	900000		**900000**

8. From the following estimates calculate the average amount of working capital required.

    a) Average amount locked up in stock:
    Stock of finished goods and work in progress — Rs.10000
    Stock of stores, material etc., — Rs.8000

    b) Average credit given:
    Local Sales 2 weeks credit — Rs.104000
    Outside the state 6 weeks credit — Rs.312000

    c) Time available for payments:
    For purchase 4 weeks — Rs.78000
    For wages 2 weeks — Rs.260000

    Add 10% to allow for contingencies.

9. Peerless Ltd. is engaged in customer retailing. You are required to forecast their working capital requirements from the following information:

Projected annual sales	Rs.650000
% of N.P to cost of sales	25%
Average credit allowed to debtors	10 weeks
Average credit allowed by creditors	4 weeks
Average stock carrying (in terms of sales requirement)	8 weeks

Add 20% to allow for contingencies.

UNIT – V

1. What are all the objectives of receivable management?
2. State the factors influencing the size of the receivables.
3. Explain the credit policies.
4. Enumerate the purpose of maintaining receivables.
5. Illustrate the purpose of holding a inventory.
6. What are the objectives of Inventory management?
7. State the ABC analysis.
8. Discuss about VED analysis.
9. A company sells goods on cash as well on credit. The following particulars are exatracted from the book of the company:

Gross sales	Rs.400000
Cash sales	Rs.80000
Sales return	Rs.28000
Debtors at the end	Rs.36000
Bills receivable at the end	Rs.8000
Provision for doubtful debts	Rs.3000

Calculate the average collection period.

10. Calculate a) Average age of debtors and b) Debtors turn over from the following particulars:

Credit sales	Rs.270000
Return inwards	Rs.20000
Debtors at the beginning	Rs.55000
Debtors at the end	Rs.45000
Provision for doubtful debts	Rs.5000

Assume no. of days in a year is 360.

11. From the following you are required to calculate a) Debtors turn over b) Average age of debtors:

Particulars	***2005***	***2004***
Net sales	Rs.1800000	Rs.1500000
Debtors at the beginning	Rs.172000	Rs.160000
Debtors ate the end	Rs.234000	Rs.172000

12. The following information has been extracted from the records of the company for the last two years:

Particulars	2003	2004
Net sales	Rs.2500000	Rs.3300000
Receivables	Rs.500000	Rs.550000

a) Calculate receivables turnover for the given two years.
b) Find out average size of investment in receivables turnover of 6.5 times on budgeted sales volume of Rs.3900000 for the year 2005.

13. Calculate EOQ: Annual requirements 3600kgs; Cost of placing and receiving one order Rs.10; annual carrying and storage cost Rs.20 p.u.
14. Calculate EOQ: Consumption during the year 600 units; Ordering cost Rs.12; carrying cost 20%; Price per unit Rs.20.
15. Find out EOQ: Annual usage Rs.120000; Cost of placing an order Rs.15; Annual carrying cost 10% of inventory value.
16. Find out the EOQ and the number of orders per year from the following information:

    Monthly consumption 3000 units

    Cost per unit Rs.54

    Ordering cost Rs.150 per order

    Inventory carrying cost 20% of the average inventory.

17. From the following particulars given below, calculate EOQ and the Number of orders to be placed per year.

    Total Consumption of material per year 10,000 kgs;

    Buying cost per order Rs.50; unit cost of material Rs. 2 per kg.

    Carrying and storage cost 8% on average inventory.

18. Calculate EOQ from the following:

    Annual Usage 80300 units

    Cost of raw materials Rs.8 per unit

    Ordering cost Rs.20 per day

    Carrying cost of one unit Rs.1.12

19. Find out Re-order level:

    Maximum usage 300 units, Minimum usage 200 units, Re-order period 8 to 10 days.

20. From the following information calculate 1. Maximum stock level 2. Minimum stock level & 3. Re-order level

    Minimum consumption 240 units per day

Normal consumption	300 units per day
Maximum consumption	420 units per day
Re-order quantity	3600 units
Re-order period	10 to 15 days
Normal order period	12 days

21. From the following information calculate 1. Maximum stock level 2. Minimum stock level & 3. Re-order level.

Normal usage	100 units per day
Minimum usage	60 units per day
Maximum usage	130 units per day
EOQ	5000 units
Reorder period	25 to 30 days.

22. Material A is used as follows:

Maximum usage in a month	600 units
Minimum usage in a month	400 units
Average usage in a month	450 units

Lead time: Maximum 6 months, Minimum 2 months

Re-order quantity	1500 units

Maximum reorder period for emergency purchase – 1 month

Calculate 1. Re-order level 2.Minimum level 3.Maximum level 4.Average stock level & 5. Danger level.

PART –C (Ten Marks)

UNIT – I

1. Explain the types of financial decisions.
2. Discuss about the objectives of financial management.
3. State the techniques of time value of money.
4. State the computation of cost of capital.
5. Mr.Krishnan invested Rs.2, 00,000 at 12% p.a. for two years. What will be the value of investment after 2 years, if interest is compounded a) Half – Yearly b) Quarterly c) Monthly.
6. Anand makes a fixed deposit of Rs.10, 000 in a bank which pays 10% interest. What is the effective rate of interest if compounding is done a) Half – Yearly b) Quarterly c) Monthly?

7. Sri vignesh Industries Ltd., offers 12% interest on fixed deposits. What is the effective rate of interest if compounding is done a) Half – Yearly b) Quarterly c) Monthly?
8. Mr. Srikanth deposits Rs.7, 000 at the beginning of every year for 5 years. The rate of interest is 8% p.a. Determine the maturity value at the end of the period.
9. Sri Ram Industries Ltd issued 10,000 10% debentures of Rs.100 each. The tax rate is 50%. Calculate the before tax and after tax cost of debt if the debentures are issued
   a) At par b) at a premium of 10% c) at a discount of 10%.
10. Sakthi Ltd issued 20, 000 8% debentures of Rs.100 each on 1st April 2009. The cost of issues was Rs.50, 000. The company 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% c) at a discount of 10%.
11. A company issues 10,000 bonds of Rs.100 each at 14% p.a. Marketing costs are Rs.20, 000. The bonds are to be redeemed after 10 years and the company is taxed at the rate of 40%. Compute the cost of debt if the bonds are issued a) at par b) at a premium of 5%
    c) At a discount of 5%.
12. Sarathy Ltd issued 14% 20,000 debentures of Rs.100 each at 14% p.a. Marketing costs are Rs.40, 000. The debentures are to be redeemed after 10 years and the company is taxed at the rate of 40%. Compute the cost of debt if the debentures are issued a) at par b) at a premium of 5% c) At a discount of 5%.
13. A company issues 20, 000 10% shares of Rs.100 each. The issues expenses were Rs.2 per share. Calculate the cost of preference share capital if the shares are issued a) at par b) at a premium of 10% c) at a discount of 5%.
14. Alpha Ltd., issued 10% redeemable preference shares of Rs.100 each, redeemable after 10 years. The flotation costs were 5% of the nominal value. Compute the effective cost of the company if the issue is made at a) at par b) a premium of 5% c) a discount of 5%.
15. A company's share is quoted in the market at Rs.40 and the expected dividend for the next year is Rs.2 per share. Thereafter, the investors expected a growth rate of 5% p.a.
    a) Calculate the cost of equity capital
    b) Calculate the market price per share if the expected growth rate is 6% p.a.
    c) Calculate the market price per share if the dividend of Rs.2 is maintained, the cost of equity is 9% and the expected growth in dividend is 6% p.a.

16. From the following particulars relating to the capital structure of Blue Ltd., calculate the overall cost of capital, using a) Book value weights b) Market value weights.

Sources of funds	**Book value (BV)**	**Market Value (MV)**
Equity share capital	45000	90000
Retained earnings	15000	-
Preference share capital	10000	10000
Debentures	30000	30000

The after tax cost of different sources of finance is:

a) Equity share capital 14% b) Retained Earnings 13% c) Preference share Capital 10% d) Debentures 8%.

UNIT – II

1. Explain the theories of capital structure.
2. State the determinants of capital structure.
3. Bharathi Ltd., expects an 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) under NI approach.
4. A company expects a net operating income of Rs.1, 00,000. The equity capitalization rate of the company is 10%. It has Rs.5, 00,000 6% debentures. a) Calculate the value of the firm and overall capitalization rate according to the NI approach (ignore income tax) .

   b) If the firm’s debentures are increased to Rs.7, 00,000 what shall be the value of the firm and overall capitalization rate?
5. A Ltd., expects a net operating income of Rs.1, 20,000. It has Rs.6, 00,000, 6% debentures. The overall capitalization rate is 10%. Calculate the value of the firm and cost of equity according to the NOI approach. What will be the value of the firm and cost of equity if debenture debt is increased to Rs.9, 00,000?
6. Compute the market value of the firm, market value of equity and the average cost of capital.

Net Operating income	Rs.3, 00,000
Total Investment	Rs.15, 00,000
Equity Capitalization rate:	
a) If the firm users no debt	10%
b) If the firm uses a debt of Rs.6,00,000	11%
c) If the firm uses a debt of Rs.9,00,000	12%

The debt of Rs.6, 00,000 can be raised at 5% rate of interest while debt of Rs.9, 00,000 can be raised at 7%.

7. Compute the market value of the firm, market value of equity and the average cost of capital.

Net Operating income	Rs.1, 20,000
Total Investment	Rs.6, 00,000
Equity Capitalization rate:	
d) If the firm users no debt	10%
e) If the firm uses a debt of Rs.2,40,000	11%
f) If the firm uses a debt of Rs.3,60,000	12%

The debt of Rs.2, 40,000 can be raised at 5% rate of interest while debt of Rs.3, 60,000 can be raised at 7%.

8. Merry Ltd., has earnings before interest and taxes (EBIT) of Rs.30, 00,000 and a 40% tax rate. Its required rate of return on equity in the absence of borrowing is 18%. In the absence of personal taxes, what is the value of the company in MM world
    a) With no leverage
    b) With Rs.40,00,000 in debt
    c) With Rs.70, 00,000 in debt?
9. Two firm M and N are identical in all respects expect the degree of leverage. Firm M does not use any debt in its financing (UL). Firm N has 8% debentures of Rs.6, 00, 000 (Levered). The firms have earnings before interest and taxes (EBIT) of Rs.2, 00,000 and the equity capitalization rate is 12.5%. Assuming the corporate tax at 50%. Calculate the value of the firms using MM approach.
10. Two firm A and B are identical in all respects expect the degree of leverage. Firm A does not use any debt in its financing (UL). Firm B has 5% debentures of Rs.4, 00, 000 (Levered). The firms have earnings before interest and taxes (EBIT) of Rs.1, 00,000 and the equity capitalization rate is 12 %. Assuming the corporate tax at 40%. Calculate the value of the firms using MM approach.

11. A company needs Rs.6, 00,000 for construction of a new plant. The following three financial plans are feasible.
    1. The company may issue 60,000 equity shares of Rs.10 each.
    2. The company may issue 30,000 equity shares of Rs.10 each and 3,000 debentures of Rs.100 each bearing 8% coupon rate of interest.
    3. The company may issue 30,000 equity shares of Rs.10 each and 3000 preference shares of Rs.100 each bearing 8% rate of dividend.

    The profit before interest and taxes (EBIT) is expected to be Rs.1, 50,000. Corporate tax rate is 50%. Calculate the earnings per share under the three plans. Which plan would you recommended and why?
12. Alpha company ltd., has an all equity capital structure consisting of 20,000 equity shares of Rs.100 each. The management plans to raise Rs.30 lakhs to finance a programme of expansion. Three alternative methods of financing are under construction.
    a) Issue of 30,000 new shares of Rs.100 each
    b) Issue of 30,000 8% debentures of Rs.100 each
    c) Issue of 30,000 8% preference shares of Rs.100 each.

    The company’s expected earnings before interest and taxes (EBIT) are Rs. 10 lakhs. Determine the earnings per share in each alternative assuming a corporate tax rate of 50%. Which alternative is the best and why?
13. Ace Ltd., has a share capital of Rs.1, 00,000 dividend into shares of Rs.10 each. The management is considering the following alternatives for financing capital expenditure of Rs.50, 000.
    1. Issue of 10% debentures
    2. Issue of 5000 12% preference shares of Rs.10 each
    3. Issue of 5,000 shares of Rs.10 each

    The earnings before interest and taxes (EBIT) is Rs.3, 00,000 p.a.

    Calculate the effect of each of the alternatives on the earnings per share, assuming
    1. EBIT continues to be the same even after the capital expenditure.
    2. EBIT increases by Rs.15,000
    3. Tax liability of 40%.

UNIT – III

1. Discuss the factors determining dividend policy.
2. State the types of dividend theories.

3. The following projections have been given in respect of companies X and Y:

Particulars	***Company X***	***Company Y***
Volume of output & sales	80000 units	100000 units
Variable cost per unit	Rs.4	Rs.3
Fixed Cost	Rs.240000	Rs.250000
Interest Burden on debt	Rs.120000	Rs.50000
Selling Price per unit	Rs.10	Rs.8

On the basis of above information calculate:

a) Operating Leverage
b) Financial Leverage
c) Combined Leverage
d) Operating Break Even point
e) Financial Break Even point.

4. Income statement of PNR Ltd., is given below:

Sales	Rs.1050000
Variable Cost	Rs.767000
Fixed cost	Rs.75000
EBIT	Rs.208000
Interest	Rs.110000
Tax	Rs.29400
Net Income	Rs.68600
No. of Equity shares	Rs.4000

Calculate: a) Operating Leverage b) Financial Leverage c) Combined Leverage d) Earnings per share (EPS).

5. Moon Ltd., and Star Ltd., have provided you with the following information:

Particulars	***Moon Ltd***	***Star Ltd***
Sales (in units)	20000	20000
Price per unit	Rs.50	Rs.50

Variable cost per unit	Rs.20	Rs.25
Fixed Operating cost	400000	300000
Fixed financing cost	100000	50000

Which firm do you consider to be more risky and why?

6. The following projections have been given in respect of O Bright Co:

Particulars	***O Bright Company***
Output	300000 units
Fixed cost	Rs.350000
Unit variable cost	Rs.1
Interest Expenses	Rs.25000
Unit selling price	Rs.3

On the basis of above information calculate:

a) Operating Leverage
b) Financial Leverage
c) Combined Leverage
d) Operating Break Even point
e) Financial Break Even point.

7. Calculate the operating leverage, financial leverage and the combined leverage for the following firms and interpret the results:

Particulars	***P***	***Q***	***R***
Output (Units)	300000	75000	500000
Fixed Cost	Rs.350000	Rs.700000	Rs.75000
Variable cost per unit	Rs.1	Rs.7.50	Rs.0.10
Interest expenses	Rs.25000	Rs.40000	-
Unit Selling price	Rs.3	Rs.2.5	Rs.0.50

8. The earnings per share of a company are Rs.10. the rate of capitalization is 10% and the retained earnings can be employed to yield a return of 20%. The company is considering a payout of a) 20% b) 40% and c) 60%. Which of these would maximize the wealth of the shareholders as per Walter's model?
9. The earnings per share of Excellent Ltd., is Rs.8. The rate of capitalization is 10%. The productivity of retained earnings is 15%. Compute the market price per share if the payout ratio is 0%, 25%, 50%, 75% and 100%. What inference can be drawn from the above exercise as per Walter's model?
10. The earnings per share of a company are Rs.12 and the rate of capitalization applicable to the company is 10%. The productivity of earnings (r) is 10%. Compute the market value of the company's share if the payout ratio is a) 25% b) 50% c) 75%. Which is the optimum payout as per Walter's model?
11. The following information relates to Venus Ltd.,

    Earnings per share Rs.30

    Productivity of retained earnings (r) 15%

    Capitalization rate (k) 15%

    What is the market price per share according to the Walter's model if the payout is a) 20% b) 40% c) 60%.
12. The earnings per share of Notsowell Ltd., is Rs.20. The rate of capitalization is 12%. The productivity of retained earnings is 9%. Compute the market price per share using Walter's formula if the dividend payout is a) 20% b) 60% c) 100%.
13. The earnings per share of Weak Ltd., is Rs.12. The rate of capitalization is 10%. The rate of return 8%. Compute the market price per share using Walter's formula if the dividend payout is a) 25% b) 50% c) 100%.
14. Following particulars relate to three Companies:

A Ltd ***(Growth Firm)***	***B Ltd*** ***(Normal Firm)***	***C Ltd*** ***(Declining Firm)***
r= 15% ke = 10% E= Rs.8	r = 10% Ke = 10% E = Rs.8	r = 5% Ke = 10% E = Rs.8

Using Walter's model, calculate the value of equity share of each of these companies, if the dividend payout is a) 25% b) 50% c) 75%.

15. The following information is available in respect of a firm. Capitalization rate = 10%; Earnings per share Rs.40. Assume rate of return on investments i) 12% ii) 10% iii) 8%. Show the effect of dividend policy on market price of shares applying Walter's formula when dividend payout ratio is a) 0% b) 50% c) 100%.
16. Normal Ltd., gives you the following information:

Earnings per share (EPS)	Rs.12
Cost of capital (k)	10%
Return on investments (r)	10%

Find out the market price per share using Gordon's model, if the payout ratio is a) 25% b) 50% c) 75%.
17. Normal Ltd., gives you the following information:

Earnings per share (EPS)	Rs.12
Cost of capital (k)	10%
Return on investment	10%

Find out the market price per share using Gordon's model, if the payout is a) 25% b) 50% c) 75%.
18. The following information relates to Titan Ltd.,

Rate of return (r) 10%; Earnings per share Rs.20; Ascertain the market price per share in the following cases, using Gordon's model.

Dividend Payout (1-b)%	***Retention (b)%***	***Cost of Equity % (k)***
40	60	18
60	40	16
80	20	14

19. Determine the value of shares based on Gordon's Model:

Rate of Return 12%

Earnings per share Rs.60

	Dividend Payout	***Retention***	***Cost of Equity***
A	25%	75%	20%
B	50%	50%	15%

20. Determine the value of shares based on Gordon’s Model assuming the following:

	Dividend Payout	***Retention***
a	40%	60%
b	50%	50%
c	60%	40%

Rate of return on investments 11%;

Capitalization rate 11%;

Earnings per share Rs.20.

21. Determine the value of shares based on Gordon’s Model assuming the following:

	Dividend Payout	***Retention***
a	10%	90%
b	40%	60%
c	70%	30%

Rate of return on investments 12%;

Capitalization rate 11%;

Earnings per share Rs.20.

UNIT – IV

1. Explain the methods or forecasting a working capital requirement.
2. Discuss the determinants of working capital.
3. State the sources of working capital.
4. From the following information, prepare a cash budget for the period from January to April:

Month	***Expected sales (Rs)***	***Expected Purchase (Rs)***
January	60000	48000
February	40000	45000

March	45000	31000
April	40000	40000

Wages to be paid to workers will be Rs.5000 per month. Cash balance on 1st January may be assumed to be Rs.8000.

5. From the following information, prepare a cash budget for the period from January to June:

Month	***Expected sales (Rs)***	***Expected Purchase (Rs)***
January	30000	24000
February	20000	22500
March	22500	15500
April	20000	20000
May	18000	15000
June	28000	25000

Wages to be paid to workers will be Rs.2500 per month. Cash balance on 1st January may be assumed to be Rs.4000.

6. BPL ltd. wishes to arrange overdraft facilities with its bankers during the period April to June 2005 when it will be manufacturing mostly for stock. Prepare a cash budget for the above period from the following data, indicating the extent of the bank facilities the company will require at the end of each month:

A	***Credit sales (Rs)***	***Purchases (Rs)***	***Wages (Rs)***
Feb.2005	1,80000	1,24,800	12,000
March	1,92,000	1,44,000	14,000
April	1,08,000	2,43,000	11,000
May	1,74,000	2,46,000	10,000
June	1,26,000	2,68,000	15,000

b. 50% of credit sales are realized in the month following the sales and the remaining 50% in the second month following. Creditors are paid in the month following the month of purchase.

c. Cash at bank on 1-4-2005 (estimated) Rs.25, 000.

7. ABC Company Ltd.has given the following particulars. You are required to prepare a cash budget for the three months ending 31st December 2005.

a) Months	***Sales (Rs)***	***Materials (Rs)***	***Wages (Rs)***	***Overheads (Rs)***
August	20,000	10,200	3,800	1,900
September	21,000	10,000	3,800	2,100
October	23,000	9,800	4,000	2,300
November	25,000	10,000	4,200	2,400
December	30,000	10,800	4,500	2,500

b. Credits terms are:

Sales/Debtors –10% sales are on cash basis,50%of the credit sales are collected next month and the balance in the following month

Creditors: Materials 2 months

Wages 1/5 month

Overheads ½ month

c. Cash balance on 1st October 2005 is expected to be 8000.

d. A machinery will be installed in august 2005 at a cost of Rs.10000.The monthly installment of Rs.5000 is payable from October onwards.

e. Dividend at 10% on preference share capital of Rs.300000 will be paid on 1st Dec 2005.

f. Advanced to be received for sale of vehicle Rs.20, 000 in DEC.

g. Income tax (advance) to be paid in Dec Rs.5000.

UNIT – V

1. Explain about the techniques of Inventory management.
2. Two components A & B are used as follows:

Normal usage 50 units each per week;

Minimum usage 25 units each per week;

Maximum usage 75 units each per week;

Re-order quantity A: 300 units, B: 500 units;

Re- order period A 4 to 6 weeks; B 2 to 4 weeks. Calculate for each component

1. Re-order level 2.Minimum level 3.Maximum level 4. Average stock level.

3. Two types of materials X & Y are used in a factory as follows:

   Normal usage 600 units each per week

   Maximum usage 900 units each per week

   Maximum usage 300 units each per week

   Re- order quantity X 4800 units, Y 7200 units

   Re- order period X 4 to 6 weeks, Y 2 to 4 weeks

Calculate: 1. Re-order level 2.Minimum level 3.Maximum level 4.Average stock level.

4. In a factory three components X and Y are stood as follows:

   Normal usage X – 150 & Y – 200 Units per week

   Maximum usage X – 225 & Y – 250 Units per week

   Minimum usage X – 75 & Y – 100 Units per week

   Re-order quantity:

   X – 900 Units Y - 1500 units

   Re order period

   X – 12 to 18 weeks

   Y 60 to 12 weeks

   Calculate for each component 1. Re- order level 2. Minimum Level 3. Maximum Level 4. Average level.