Question Bank

Course Code : 202 **Course Name : Financial Management**

UNIT I- Business Finance

Sr.no	Question Type	Questions	Marks
1	REMEMBERING	**MCQs** 1--------------- is concerned with the acquisition, financing, and management of assets with some overall goal in mind. a. Financial Management b. Profit Maximization c. Agency Theory d. Social Responsibility. 2.The long-run objective of financial management is to: a. Maximize earnings per share. b. Maximize the value of the firm's common stock. c. Maximize return on investment. d. Maximize market share.	2
2	REMEMBERING	**MCQs** 1.-------------is concerned with the maximization of a firm's earnings after taxes. a. Shareholder wealth maximization b. Profit maximization c. Stakeholder maximization d. EPS maximization 2. What is the most appropriate goal of the firm? a. Shareholder wealth maximization. b. Profit maximization. c. Stakeholder maximization. d. EPS maximization.	2
3	REMEMBERING	**3. State whether each of the following statements is True (T) or False(F)** (i) Financial Planning deals with the preparation of financial statements. (ii) Traditional concept of finance was limited to acquisition of funds. (iii) Investment decision, financing decision, dividend decision are the decisions of finance. (iv) There is no relation among finance decisions.	2

4	REMEMBERING	What is Business Finance?	2
5	REMEMBERING	What is Financial Management?	2
6	REMEMBERING	Define Financial Management.	2
7	REMEMBERING	What are the three decisions of finance function?	2
8	REMEMBERING	What is another name of short term investment decision?	2
9	REMEMBERING	What is a dividend decision?	2
10	REMEMBERING	What are the factors affecting the dividend decisions?	2
11	REMEMBERING	What are the objectives of the financial management?	2
12	REMEMBERING	What is Investment Decision?	2
13	REMEMBERING	What is a Financing Decision?	2
14	REMEMBERING	How finance is related with Economics?	2
15	REMEMBERING	How Finance is related with Accounting?	2
16	REMEMBERING	What is the relation of taxation and finance?	2
17	REMEMBERING	What is Finance Function?	2
18	REMEMBERING	State the functions of Finance manager?	2
1	UNDERSTANDING	Sound financial management is the key to the prosperity of the business. Explain.	5
2	UNDERSTANDING	Explain in brief any three decisions involved in the financial management.	5
3	UNDERSTANDING	State the objectives of the financial management?	5
4	UNDERSTANDING	Explain the importance of financial planning?	5
5	UNDERSTANDING	Explain briefly any five points of the role of financial management.	5
6	UNDERSTANDING	Explain any four factors affecting the dividend policy of the company.	5
7	UNDERSTANDING	Explain the concept of wealth maximization as an objective of financial management.	5
8	UNDERSTANDING	Explain briefly the factors affecting the investments decisions?	5
9	UNDERSTANDING	Explain the factors affecting the financing decisions.	5
10	UNDERSTANDING	Write a short note on finance function.	5
11	UNDERSTANDING	Explain the role of Finance Manager in Financial Management?	5
12	UNDERSTANDING	Define Finance and how is it related to other allied disciplines?	5

13	UNDERSTANDING	Explain modern approaches to Financial Management.	5
1	APPLY	Describe the finance functions as divided into three broad categories.	10
2	APPLY	Describe modern approaches to financial management.	10
1	ANALYSE	Briefly analyse the scope of the financial Management?	10
2	ANALYSE	Explain the functions of finance Manager in detail & elaborate the relationship of financial Management with other functional disciplines.	10
1	EVALUATE	‘The concept of finance function has changed and keeps on changing along with the evolution of finance as a management activity.’ Elaborate this statement.	10
2	EVALUATE	‘Wealth maximisation is better than profit maximisation’ Do you agree? Justify your comment.	10

UNIT II - Techniques of Financial Statement Analysis

Sr. no	Question Type	Questions	Marks
1	REMEMBERING	**MCQs** 1.Which of the following shows details and results of the company's profit-related activities for a period of time? a. Balance sheet b. Income statement c. Statement of cash flows d. Statement of financial position 2. Which of the following financial statements is also known as a statement of financial position? a. Balance sheet b. Statement of cash flows c. Income statement d. None of the above	2
2	REMEMBERING	**MCQs** 1.The decision function of financial management can be broken down into the decisions. a. Financing and investment b. Investment, financing, and asset management c. Financing and dividend d. Capital budgeting, cash management, and credit management 2.-------------varies inversely with profitability. a. Liquidity. b. False. c. Blue. d. Risk.	2
3	REMEMBERING	**MCQs** 1. Working Capital Turnover measures the relationship of Working Capital with: (a)Fixed Assets, (b)Sales, (c)Purchases, (d)Stock. 2. A firm has Capital of Rs. 10,00,000; Sales of Rs. 5,00,000; Gross Profit of Rs. 2,00,000 and Expenses of Rs.1,00,000. What is the Net Profit Ratio? (a)20%, (b) 50%, (c)10%, (d)40%.	2

4	REMEMBE RING	What is meant by Financial Statement Analysis?	2
5	REMEMBE RING	Define Financial Statement Analysis.	2
6	REMEMBE RING	**1. State whether each of the following statements is True (T) or False(F)** (i) Financial statements are an important source of information to shareholders and stakeholders. (ii) Preparation of Profit & Loss Appropriation A/c is a requirement under the Companies Act, 1956. (iii) Ratio Analysis is the only technique of analysis of financial statements. (iv) In Common Size Statements, each item is expressed as a percentage of some common items (total).	2
7	REMEMBE RING	What are the various techniques of Financial Statement Analysis?	2
8	REMEMBE RING	What do you mean by Common Size Statements?	2
9	REMEMBE RING	What do you mean by Comparative Statements?	2
10	REMEMBE RING	What is Trend Analysis.	2
11	REMEMBE RING	What is Ratio Analysis.	2
12	REMEMBE RING	Define Cash Flow & Fund Flow Statement.	2
13	REMEMBE RING	What does debt service coverage ratio indicate?	2
14	REMEMBE RING	What is the formula for calculating interest coverage ratio?	2
15	REMEMBE RING	What do you mean by Liquidity Ratios?	2
16	REMEMBE RING	State the objectives of Financial Statement Analysis.	2
17	REMEMBE RING	Name the parties interested in the analysis of Financial Statement.	2
18	REMEMBE RING	What do you mean by Solvency Ratios?	2
19	REMEMBE RING	What is the meant by Debtor Turnover Ratio? What is the formula for calculating it?	2
1	UNDERST ANDING	Explain the Objectives of Financial Statement analysis?	5
2	UNDERST ANDING	Explain the various techniques used for Financial Statement Analysis.	5
3	UNDERST ANDING	Explain the advantages and disadvantages of Common Size Statement?	5

<table>
<tr><td>4</td><td>UNDERSTANDING</td><td>Explain the advantages and disadvantages of Comparative Statements?</td><td>5</td></tr>
<tr><td>5</td><td>UNDERSTANDING</td><td>Explain the advantages of using Ratio Analysis as a tool for Financial Statement Analysis?</td><td>5</td></tr>
<tr><td>6</td><td>UNDERSTANDING</td><td>Explain in detail the Trend Analysis.</td><td>5</td></tr>
<tr><td>7</td><td>UNDERSTANDING</td><td>Define Cash Flow and Fund Flow Statement. What is the difference between these two?</td><td>5</td></tr>
<tr><td>8</td><td>UNDERSTANDING</td><td>Explain in detail the limitations of Financial Statement Analysis?</td><td>5</td></tr>
<tr><td>9</td><td>UNDERSTANDING</td><td>Explain the significance of financial Statement Analysis to Top Management?</td><td>5</td></tr>
<tr><td>10</td><td>UNDERSTANDING</td><td>Explain why labour Unions are interested in the Analysis of Financial Statement?</td><td>5</td></tr>
<tr><td>1</td><td>APPLY</td><td>Q.1. The following Trading and Profit and Loss Account of Fantasy Ltd. for the year 31-3-2019 is given below:
<table>
<tr><th>Particulars</th><th>Rs.</th><th>Particulars</th><th>Rs.</th></tr>
<tr><td>To Opening Stock</td><td>76,250</td><td>By Sales</td><td>5,00,000</td></tr>
<tr><td>“Purchases</td><td>3,15,250</td><td>“Closing stock</td><td>98,500</td></tr>
<tr><td>“Carriage and Freight</td><td>2,000</td><td></td><td></td></tr>
<tr><td>“Wages</td><td>5,000</td><td></td><td></td></tr>
<tr><td>“Gross Profit b/d</td><td>2,00,000</td><td></td><td></td></tr>
<tr><td></td><td>5,98,500</td><td></td><td>5,98,500</td></tr>
<tr><td>To Administration expenses</td><td>1,01,000</td><td>By Gross Profit b/d</td><td>2,00,000</td></tr>
<tr><td>“Selling and Dist. expenses</td><td>12,000</td><td>“Non-operating incomes:</td><td></td></tr>
<tr><td>“Non-operating expenses</td><td>2,000</td><td>“Interest on Securities</td><td>1,500</td></tr>
<tr><td>“Financial Expenses</td><td>7,000</td><td>“Dividend on shares</td><td>3,750</td></tr>
<tr><td>Net Profit c/d</td><td>84,000</td><td>“Profit on sale of shares</td><td>750</td></tr>
<tr><td></td><td>2,06,000</td><td></td><td>2,06,000</td></tr>
</table>
Calculate:
1. Gross Profit Ratio 2. Expenses Ratio 3. Operating Ratio
4. Net Profit Ratio 5. Operating (Net) Profit Ratio 6. Stock Turnover Ratio.</td><td>10</td></tr>
<tr><td>2</td><td>APPLY</td><td></td><td>10</td></tr>
</table>

From the following Balance Sheet, prepare Comparative Balance Sheet of Sun Ltd.:

Particulars	Note No.	31st March, 2019 (₹)	31st March, 2018 (₹)
I. EQUITY AND LIABILITIES			
1. Shareholder's Funds			
(a) Share Capital		3,50,000	3,00,000
2. Non-Current Liabilities			
Long-term Borrowings		1,00,000	2,00,000
3. Current Liabilities :			
Trade Payables		1,50,000	1,00,000
Total		**6,00,000**	**6,00,000**
II. ASSETS			
1. Non-Current Assets			
Fixed Assets (Tangible)		4,00,000	3,00,000
2. Current Assets			
Trade Receivables		2,00,000	3,00,000
Total		**6,00,000**	**6,00,000**

3 | APPLY | 10

Following is the Balance Sheet of Radha Ltd. as at 31st March, 2019:

Particulars	Note No.	31st March, 2019, (₹)	31st March, 2018, (₹)
I. EQUITY AND LIABILITIES			
1. Shareholders' Funds			
(a) Share Capital		15,00,000	10,00,000
(b) Reserves and Surplus		10,00,000	10,00,000
2. Non-Current Liabilities			
Long-term Borrowings		8,00,000	2,00,000
3. Current Liabilities			
(a) Trade Payables		5,00,000	3,00,000
Total		**38,00,000**	**25,00,000**
II. ASSETS			
1. Non-Current Assets			
Fixed Assets:			
(i) Tangible Assets		25,00,000	15,00,000
(ii) Intangible Assets		5,00,000	5,00,000
2. Current Assets			
(a) Trade Receivables		6,00,000	3,50,000
(b) Cash and Cash Equivalents		2,00,000	1,50,000
Total		**38,00,000**	**25,00,000**

You are required to prepare Comparative Balance Sheet on the basis of the information given in the above Balance Sheet.

4 APPLY

The Balance Sheet of Punjab Auto Limited as on 31-12-2019 was as follows:

Particulars	Rs.	Particulars	Rs.
Equity Share Capital	40,000	Plant and Machinery	24,000
Capital Reserve	8,000	Land and Buildings	40,000
8% Loan on Mortgage	32,000	Furniture & Fixtures	16,000
Creditors	16,000	Stock	12,000
Bank overdraft	4,000	Debtors	12,000
Taxation:		Investments (Short-term)	4,000
Current	4,000	Cash in hand	12,000
Future	4,000		
Profit and Loss A/c	12,000		
	1,20,000		1,20,000

From the above, compute & Interpret: (a) the Current Ratio, (b) Quick Ratio, (c) Debt-Equity Ratio, and (d) Proprietary Ratio.

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1 ANALYSE

Comment on the following ratios of ABC Ltd.

Ratio Value	2017-18	2018-19
Gross profit	30%	24%
Net Profit	24%	26%
Debtors Turnover Ratio	6	4
Current Ratio	2.5:1	4.5:1
Quick Ratio	1:1	2:1
Inventory Turnover Ratio	7	5
Fixed Assets Turnover	5	5
EPS	6	6
Debt to Equity Ratio	4	2
Return on equity	17%	18%

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2 ANALYSE

ABC Limited has provided the following information pertaining to its two accounting periods i.e. 2016 and 2017.

Prepare a Comparative Income Statement and interpret the basic findings.

Particulars	2016 (Amount in USD)	2017 (Amount in USD)
Net Sales	200000	250000
Cost of Goods Sold	150000	180000
Selling, General and Administrative Expenses	25000	30000
Other Income	12000	18000
Taxes	8000	16000
Interest	17000	18000

10

3	ANALYSE	Following are the Income Statements of a company for the years ending Dec., 31, 2018 and 2019:	10

Particulars	2018 Rs. ,000	2019 Rs. ,000
Sales	500	700
Misc. Income	20	15
	520	715
Expenses		
Cost of Sales	325	510
Office expenses	20	25
Selling expenses	30	45
Interest	25	30
	400	610
Net Profit	120	105
	520	715

Analyse the financial position of XYZ Ltd. Using Common Size Income Statements.

1	EVALUATE	The Balance Sheets of S & Co. and K & Co. are given as follows:	10

Liabilities	S & Co. Rs.	K & Co. Rs.
Preference Share Capital	1,20,000	1,60,000
Equity Share Capital	1,50,000	4,00,000
Reserve & Surpluses	14,000	18,000
Long-term Loans	1,15,000	1,30,000
Bills Payable	2,000	--
Sundry Creditors	12,000	4,000
Outstanding Expenses	15,000	6,000
Proposed Dividend	10,000	90,000
	4,38,000	**8,08,000**
Land and Building	80,000	1,23,000
Plant and Machinery	3,34,000	6,00,000
Temporary Investment	1,000	40,000
Inventories	10,000	25,000
Book-Debts	4,000	8,000
Prepaid Expenses	1,000	2,000
Cash and Bank Balances	8,000	10,000
	4,38,000	**8,08,000**

Analyse and Compare the Financial position of two companies with the help of common size balance sheet.

2	EVALUATE	Analyse the situation and Comment on financial position of the firm using Trend Analysis.	10

Balance Sheet Account	Q1	Q2	Q3	Q4
Cash	15,175	12,750	8,750	6,785
Accounts Receivable	95,755	125,750	195,750	225,750
Inventory	85,750	95,750	175,500	195,650
Current Assets	196,680	234,250	380,000	428,185
Accounts Payable	135,750	165,850	275,425	305,785
Accrued Expenses	8,750	11,850	21,750	35,875
Current Portion L/T Debt	10,250	12,750	22,750	28,750
Current Liabilities	154,750	190,450	319,925	370,410
Income Statement Account	Q1	Q2	Q3	Q4
Sales	1,750,850	2,525,000	2,125,000	1,785,450
Cost of Goods Sold	1,138,053	1,641,250	1,381,250	1,160,543
Net Profit	140,068	277,750	191,250	124,982
Interest Expense	8,750	12,570	24,500	32,750
Financial Analysis	Q1	Q2	Q3	Q4
Current Ratio	1.27	1.23	1.19	1.16
Days' Sales in Receivables	19.96	18.18	33.62	46.15
Days' Sales in Inventory	27.50	21.29	46.38	61.53
Net Profit	8.0%	11.0%	9.0%	7.0%

3	EVALUATE	Two years' Balance sheets of Jamuna Company Ltd. are as follows:	10

Liabilities	31-3-18	31-3-19	Assets	31-3-18	31-3-19
Equity share cap	1,00,000	1,50,000	Land and Buildings	1,00,000	90,000
10%Pref. Sh. cap	50,000	50,000	Machinery	90,000	90,000
General Reserve	30,000	30,000	Debtors	53,000	30,000
Profit & Loss A/c	20,000	-----	Bills Receivable	20,000	12,000
12% Debentures	1,00,000	50,000	Stock	75,000	90,000
Creditors	30,000	35,000	Bank Balance	15,000	35,000
Bills payable	10,000	25,000	Cash Balance	2,000	13,000
Bank O/d	10,000	20,000	Profit & Loss A/c	----	10,000
O/s. Expenses	5,000	10,000			
	3,55,000	3,70,000		3,55,000	3,70,000

Additional Information:

	2017 - 18 Rs.	2018 - 19 Rs.
(1) Sales	3,65,000	2,19,000
(2) Cost of Goods sold	2,19,000	1,46,000
(3) Net profit (Before Pref. Dividend)	35,000	47,500
(4) Stock on 1-4-18	71,000	---

Calculate following ratios and give your opinion about company position in 2018 -19 in comparison with 2017 - 18. Whether it is positive or negative?

(1) Current ratio
(2) Liquid ratio
(3) Debtors ratio (Take 365 days for calculations)
(4) Gross profit ratio
(5) Stock Turnover ratio
(6) Rate of return on equity share-holders' funds

UNIT 3 – Working Capital Management

Sr. no	Question Type	Question	Marks
1	REMEMBERING	**MCQs** 1. Permanent working capital means a. Is the amount of current assets required to meet a firm's long-term minimum needs? b. Includes accounts payable. c. Includes fixed assets. d. Varies with seasonal needs. 2. Net working capital refers to a. Current assets. b. Total assets minus fixed assets. c. Current assets minus current liabilities. d. Current assets minus inventories.	2
2	REMEMBERING	What is Working Capital?	2
3	REMEMBERING	What is meant by Working Capital Management?	2
4	REMEMBERING	State the major sources of Working Capital.	2
5	REMEMBERING	How is working capital calculated?	2
6	REMEMBERING	Define the term Cash Management.	2
7	REMEMBERING	**3. State whether each of the following statements is True (T) or False(F)** (i) Financial Planning deals with the preparation of financial statements. (ii) Cash planning is a part of long-term financial planning. (iii) Financial forecasting is followed by financial planning. (iv) Net cash flow is on after tax basis.	2
8	REMEMBERING	What are fixed assets?	2
9	REMEMBERING	What do you mean by Accounts Receivables?	2
10	REMEMBERING	What is meant by Gross Working capital & Net Working capital?	2
11	REMEMBERING	What is meant by Current Assets and Current Liabilities?	2

12	REMEMBE RING	Name the various components included in Current assets.	2
13	REMEMBE RING	Name the various components included in Current liabilities.	2
14	REMEMBE RING	What is meant by Account Payables?	2
15	REMEMBE RING	What is meant by management of Inventories?	2
16	REMEMBE RING	What is meant by Safety margin?	2
17	REMEMBE RING	Write the formula for calculating Gross Operating Cycle and Net Operating Cycle.	2
1	UNDERSTA NDING	Explain in detail the concept of working capital?	5
2	UNDERSTA NDING	How working capital does affect the liquidity and profitability of a business?	5
3	UNDERSTA NDING	Explain briefly any five factors for determining the working capital of an organization?	5
4	UNDERSTA NDING	Explain the Concept of Operating Cycle?	5
5	UNDERSTA NDING	Explain the different techniques which forecast the requirement of Working Capital?	5
6	UNDERSTA NDING	Explain the major components of Working Capital?	5
7	UNDERSTA NDING	Explain time and money concept in Working Capital?	5
8	UNDERSTA NDING	Explain the balance Sheet concept of Working Capital?	5
9	UNDERSTA NDING	Explain in detail the concept of Gross Working Capital and Net Working Capital?	5
10	UNDERSTA NDING	What are the advantages of adequate Working Capital?	5
11	UNDERSTA NDING	Explain the disadvantages of redundant or excessive Working Capital?	5
12	UNDERSTA NDING	Explain the disadvantage of inadequate Working Capital?	5
1	APPLY	XYZ Ltd. sells goods on a gross profit of 25%. Depreciation is considered as a part of cost of production. The following are the annual figures given to you: Sales (2 months credit) Rs 18,00,000 Materials consumed (1 month credit) Rs 4,50,000 Wages paid (1 month lag in payment) Rs 3,60,000	10

<table>
<tr><td></td><td></td><td>Cash manufacturing expenses (1 month lag in payment) Rs 4,80,000
Administrative expenses (1 month lag in payment) Rs 1,20,000
Sales promotion expenses (paid quarterly in advance) Rs 60,000

The company keeps one month's stock each of raw materials and finished goods. It also keeps Rs 1,00,000 in cash. You are required to estimate the working capital requirements of the company on cash cost basis, assuming 15% safety margin.</td><td></td></tr>
<tr><td>2</td><td>APPLY</td><td>From the following information you are required to estimate the net working capital.

<table><tr><th>Particulars</th><th>Cost per unit (Rs.)</th></tr><tr><td>Raw Material</td><td>Rs. 400</td></tr><tr><td>Direct Labour</td><td>Rs. 150</td></tr><tr><td>Overhead (Excluding depreciation)</td><td>Rs. 300</td></tr><tr><td>Total Cost</td><td>850</td></tr></table>Additional Information:
i) Selling price: Rs. 1000 per unit
ii) Output: Rs. 52,000 units per annum
iii) Raw materials in stock: Average 2 weeks
iv) Work in progress (Assume 50% of completion stage with material consumption) Average 2 weeks
v) Finished goods in stock: Average 4 weeks
vi) Credit allowed by suppliers: Average 4 weeks
vii) Credit allowed to Debtors: Average 8 weeks
viii) Cash at Bank: Rs. 50,000
Assume that production is carried out evenly throughout the year. Assume 52 weeks equal to one year. All sales are on credit basis.</td><td>10</td></tr>
<tr><td>3</td><td>APPLY</td><td>Prepare a statement showing working capital requirement to finance a level of activity of 10,400 units per year. The cost structure is provided below;

<table><tr><th>Particulars</th><th>Cost / unit (Rs.)</th></tr><tr><td>Raw material</td><td>10</td></tr><tr><td>Direct Labour</td><td>5</td></tr><tr><td>Overheads</td><td>7</td></tr><tr><td>Profit</td><td>5</td></tr></table></td><td>10</td></tr>
</table>

<table>
<tr><td></td><td></td><td>Additional Information:
i) Average raw material in stock-one month.
ii) Average material in process - 2 weeks (Assume 50% of completion stage with full material consumption).
iii) Average finished goods in Stock-one and half month.
iv) Credit allowed by suppliers - one month.
v) Credit allowed to debtors - one month.
vi) Time lag in payment of wages - 2 weeks.
vii) Time lag in payment of overheads - l month.
viii) Cash basis sales - 25%.
ix) Cash balance is expected to be Rs. l5,000.
The production is carried out evenly throughout the year.</td><td></td></tr>
<tr><td>4</td><td>APPLY</td><td>Mithila Industries Ltd. commencing a new project. Following per unit cost information is given. Annual production is l,00,000 units.

<table><tr><th>Particulars</th><th>Cost per unit</th></tr><tr><td>Raw Materials</td><td>40</td></tr><tr><td>Direct Labour</td><td>l5</td></tr><tr><td>Overheads</td><td>25</td></tr><tr><td>Depreciation</td><td>05</td></tr><tr><td>Total cost</td><td>85</td></tr></table>
Additional information:
i) Selling price is Rs.l00 per unit.
ii) Raw materials in stock average 4 weeks.
iii) Work in progress average 2 weeks. (Assume 50% of completion stage with full material consumption)
iv) Finished Goods in stock average 4 weeks.
v) Credit allowed to customers 8 weeks.
vi) Credit allowed to suppliers’ average 4 weeks.
vii) Lag in the payment of wages & overheads l.5 weeks.
viii) Cash in hand expected to be Rs. 50,000.

Production is carried out evenly throughout the year (52 weeks) & wages & overheads accrue similarly all sales are on credit basis. Calculate net working capital as per 'Cash Cost Approach Method' of working capital.</td><td>10</td></tr>
</table>

<table>
<tr>
<td>1</td>
<td>ANALYSE</td>
<td>
A Proforma cost sheet of a company provides the following particulars:
<table>
<tr><th>Elements of cost</th><th>Amount per unit</th></tr>
<tr><td>Raw material</td><td>80</td></tr>
<tr><td>Direct labour</td><td>30</td></tr>
<tr><td>Overheads</td><td>60</td></tr>
<tr><td>Total cost</td><td>170</td></tr>
<tr><td>Profit</td><td>30</td></tr>
<tr><td>Selling price</td><td>200</td></tr>
</table>
The following further particulars are available:
Raw materials are in stock for one month
Credit allowed by supplier is one month
Credit allowed to customers is two months
Lag in payment of wages 1½ weeks
Lag is payment of overheads one month
Materials are in process for an average of half month (50% to be considered for labour and other overheads)
Finished goods are in stock for an average of one month
¼ output is sold against cash
Cash in hand and at bank is expected to be Rs.25,000.
Prepare working capital needed to finance a level of activity of 1,04,000 units of product.
You may assume that production is carried on evenly throughout the year. Wages and overheads accrue similarly and a period of 4 weeks is equivalent to a month.
</td>
<td>10</td>
</tr>
<tr>
<td>2</td>
<td>ANALYSE</td>
<td>
The management of Ram Industries has called a statement showing the working capital needs to finance a level of activity of 1,80,000 units of output for the year. The cost structure of a product as follows:
<table>
<tr><th>Elements of cost</th><th>Cost per unit (Rs.)</th></tr>
<tr><td>Raw materials</td><td>20</td></tr>
<tr><td>Direct labour</td><td>5</td></tr>
<tr><td>Overheads (including depreciation of Rs.5 per unit)</td><td>15</td></tr>
<tr><td></td><td>40</td></tr>
<tr><td>Profit</td><td>10</td></tr>
<tr><td>Selling price</td><td>50</td></tr>
</table>
Additional information:
Minimum desired cash balance is Rs.20,000
Raw materials are held in stock on an average for two months
</td>
<td>10</td>
</tr>
</table>

		Work in progress (Assume 50% completion stage in respect of labour and overheads) will approximate to half a month's production. Finished goods remain in warehouse on an average for a month. Suppliers of materials extend a month's credit and debtors are provided two month's credit. Cash sales are 25% of total sales. There is a time lag in payment of wages of a month and half a month in case of overheads. Prepare statement showing working capital needs.	
3	ANALYSE	Q.3. The Board of Directors of Ruby Ltd. requests you to prepare a statement showing the working capital requirements forecast for a level of activity of 1,56,000 units of production. The following information is available for your calculation: Raw materials — 90 Direct labour — 40 Overheads — 75 205 Profit — 60 Selling price per unit — 265 **Additional information:** (a) Raw materials are in stock on average one month. (b) Materials are in process, on average 2 weeks. (c) Finished goods are in stock, on average one month. (d) Credit allowed by suppliers – one month. (e) Time lag in payment from debtors – 2 months. (f) Lag in payment of wages – 1.5 weeks. (g) Lag in payment of overheads – one month. 20% of the output is sold against cash. Cash in hand and at bank is expected to be Rs. 60,000. It is to be assumed that production is carried on evenly throughout the year. Wages and overheads accrue similarly and a time period of 4 weeks is equivalent to a month.	10
4	ANALYSE	PQR Ltd. is presently operating at 60% capacity level, producing 36,000 units per annum. In view of favourable market conditions, it has been decided that from 1st January 2018, the company would operate at 90% capacity. The following information is available: i. Existing cost-price structure per unit is given below: Raw materials — Rs 4 Wages — Rs 2 Overheads (Variable) — Rs 2 Overheads (Fixed) — Rs 1 Profit — Rs 1	10

<table>
<tr><td></td><td></td><td>
ii. It is expected that the cost of raw material, wages, other expenses and sales per unit will remain unchanged in the year 2018.
iii. Raw materials remain in store for 2 months before these are issued to production. These units remain in production process for one month.
iv. Finished goods remain in godown for 2 months.
v. Credit allowed to debtors is 2 months. Credit allowed by creditors is 3 months.
vi. Lag in wages and overhead payments is one month. It may be assumed that wages and overhead accrue evenly throughout the production cycle.
You are required to:
(a) Prepare profit statement at 90% capacity level; and
(b) Calculate the working capital requirements on an estimated basis to sustain the increased production level. Assumption made if any, should be clearly indicated.
</td><td></td></tr>
<tr><td>1</td><td>EVALUATE</td><td>
The cost sheet of ABC Ltd. provides the following data:

<table>
<tr><td></td><td>Cost per unit (Rs)</td></tr>
<tr><td>Raw materials</td><td>50</td></tr>
<tr><td>Direct labour</td><td>20</td></tr>
<tr><td>Overheads (including depreciation of Rs 10)</td><td>40</td></tr>
<tr><td>Total cost</td><td>110</td></tr>
<tr><td>Profit</td><td>20</td></tr>
<tr><td>Selling price</td><td>130</td></tr>
</table>

Average raw material in stock is for one month. Average materials in work-in-progress are for half month. Credit allowed by suppliers; one month; credit allowed to debtors; one month. Average time lag in payment of wages; 10 days; average time lag in payment of overheads; 30 days. 25% of the sales are on cash basis. Cash balance expected to be Rs 1,00,000. Finished goods lie in the warehouse for one month.
You are required to prepare a statement of the working capital needed to finance a level of the activity of 54,000 units of output. Production is carried on evenly throughout the year and wages and overheads accrue similarly. State your assumptions, if any, clearly.
</td><td>10</td></tr>
</table>

<table>
<tr>
<td>2</td>
<td>EVALUATE</td>
<td>
Gulfam Ltd. is presently operating on single shift basis and has the following cost structure (per unit):
Selling price Rs 36 Raw materials Rs 12
Wages (60% variable) Rs 10
Overheads (20% variable) Rs 10 Rs 32

For the year ending March 31, 2019; the sales amounted to Rs 8,64,000 and the current asset position on that day was follows:

Raw material Rs 72,000
Finished goods Rs 1,44,000
Work-in-progress (prime cost) Rs 44,000
Debtors Rs 2,16,000

At present the company receives a credit of 2 months from the supplier of raw materials and wages & expenses are payable with a time lag of half a month. In order to meet the excess demand, the company is preparing to work in double shift. The increase production will enable the firm to get a 10% discount from the supplier of raw materials. There will not be of any change in fixed cost, credit policy, etc.
Ascertain the effect on requirement for working capital if the proposal of double shift materializes.
</td>
<td>10</td>
</tr>
</table>

UNIT IV - Capital Structure

Sr. no	Question Type	Questions	Marks
1	REMEMBERING	**MCQ** 1. PIA will pay a Rs.4 dividend next year on its common stock, which is at present selling at Rs.100 per share. What is the market's required return on this investment if the dividend is likely to grow at 5% forever? a. 4 percent. b. 9 percent. c. 7 percent. d. 5 percent. 2. Marketable securities are primarily: a. Long-term equity securities. b. Short-term equity securities. c. Long-term debt instruments. d. Short-term debt instruments.	2
2	REMEMBERING	**MCQ** 1. When a firm needs short-term funds for a specific purpose, the bank loan will likely be a: a. Revolving credit agreement. b. Compensating balance arrangement. c. Transaction loan. d. Line of credit. 2."Capital structure" refers to: a. Total assets minus liabilities. b. Shareholders' equity. c. Long-term debt, preferred stock, and common stock equity. d. Current assets and current liabilities.	2
3	REMEMBERING	What is meant by capital structure?	2
4	REMEMBERING	**State whether each of the following statements is True (T) or False (F):** (i) The cost of capital is the required rate of return to certain the value of the firm. (ii) Different sources have same cost of capital. (iii) Operating leverage may be defined as Contribution ÷ EPS. (iv) Combined leverage helps in analysing the effect of change in sales level on the EPS of the firm.	2
5	REMEMBERING	What is the capital structure of a company?	2

6	REMEM BERING	When is said to be capital structure optimum?	2
7	REMEM BERING	What are the main sources of the funds?	2
8	REMEM BERING	Give the name two types of funds.	2
9	REMEM BERING	Give two components of borrowed funds?	2
10	REMEM BERING	What are financial risks?	2
11	REMEM BERING	What do you mean by financial leverage?	2
12	REMEM BERING	Define the term Cost of Capital?	2
13	REMEM BERING	What is trading on Equity?	2
14	REMEM BERING	What do you mean by leverage?	2
15	REMEM BERING	What is operational Leverage?	2
16	REMEM BERING	What is meant by Internal Sources of finance?	2
17	REMEM BERING	What are the External Sources of Finance?	2
18	REMEM BERING	What is the full form of WACC.	2
1	UNDERST ANDING	Share capital is better than debt capital. In the favour of this statement explain one factor which affects the capital structure.	5
2	UNDERST ANDING	How does cost of equity affect the capital structure of the company? Explain with example.	5
3	UNDERST ANDING	What is financial risk? Why does it arise?	5
4	UNDERST ANDING	Explain the Earnings before interest and taxes- EBIT?	5
5	UNDERST ANDING	What is meant by capital structure? Explain.	5
6	UNDERST ANDING	Explain the factors that determine the capital structure of a company.	5
7	UNDERST ANDING	How does trading on equity increase the return on equity shares? Explain with an example.	5

<table>
<tr><td>8</td><td>UNDERSTANDING</td><td>What do you mean by the term Trading on equity? How it can be used by an organization?</td><td>5</td></tr>
<tr><td>9</td><td>UNDERSTANDING</td><td>Explain the calculations for cost of debt under present value method.</td><td>5</td></tr>
<tr><td>10</td><td>UNDERSTANDING</td><td>What is operational Leverage and financial leverage? Distinguish between these two.</td><td>5</td></tr>
<tr><td>11</td><td>UNDERSTANDING</td><td>Explain briefly the internal sources of funds?</td><td>5</td></tr>
<tr><td>12</td><td>UNDERSTANDING</td><td>Explain the various external sources of finance?</td><td>5</td></tr>
<tr><td>1</td><td>APPLY</td><td>Mamta limited has following capital structure.
<table><tr><th>Source</th><th>Rs.</th></tr><tr><td>Equity capital (Expected dividend 12%)</td><td>5,00,000</td></tr><tr><td>10% Preference Shares</td><td>2,50,000</td></tr><tr><td>8% Loan</td><td>7,50,000</td></tr></table>You are required to calculate the WACC, Assuming 50% as the rate of Income tax before and after tax.</td><td>10</td></tr>
<tr><td>2</td><td>APPLY</td><td>The entire capital structure of a company is provided along with the tax adjusted cost of each component. Determine the WACC.
<table><tr><th>Source</th><th>Amount (Rs.)</th><th>Tax adjusted cost of capital</th></tr><tr><td>12% Debenture</td><td>30,00,000</td><td>8%</td></tr><tr><td>9% Preference share capital</td><td>20,00,000</td><td>9%</td></tr><tr><td>Equity Shares</td><td>50,00,000</td><td>14%</td></tr></table></td><td>10</td></tr>
<tr><td>3</td><td>APPLY</td><td>Compute (WACC) Weighted Average Cost of Capital based on following for a Company.
<table><tr><th>Source</th><th>Rs. in Lakh</th></tr><tr><td>1) Equity Share Capital (20,000 shares)</td><td>40</td></tr><tr><td>2) 16% Preference share capital</td><td>10</td></tr><tr><td>3) 14% debentures</td><td>30</td></tr></table>The company pays dividend at 10%.</td><td>10</td></tr>
<tr><td>4</td><td>APPLY</td><td>The following are the details

Selling Price Per Unit — Rs. 20
Variable Cost per unit — Rs. 12
Actual Sales — 200 units
Fixed cost — 1000</td><td>10</td></tr>
</table>

Calculate degree of operating leverage when sales will be

(a) 150 units

(b) 250 units

(c) 300 units

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1 | ANALYSE | Marks: 10

From the following projections of XYZ Ltd. for the next year, you are required to work out the Working Capital (WC) required by the company.

Annual Sales	Rs. 14,40,000
Cost of production including depreciation Rs. 1,20,000	12,00,000
Raw material purchases	7,05,000
Monthly expenses	30,000
Anticipated opening stock of raw materials	1,40,000
Anticipated closing stock of raw materials	1,25,000
Inventory Norms:	
Raw Materials (month)	2
Work-in-progress (days)	15
Finished goods (month)	1

The firm enjoys the credit of 15 days on its purchases, and allows 1 month's credit on its supplies. The company has received an advance of Rs. 15,000 on sales orders. You may assume that production is carried on evenly throughout the year, and minimum cash balance desired to be maintained is Rs. 10,000.

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2 | ANALYSE | Marks: 10

The entire capital structure of a company is provided. Determine the after tax Weighted Average Cost of Capital (WACC), assuming the tax rate of 25%.

Components of Capital	Amount (Rs.)
Equity Capital (Expected dividends 11%)	15,00,000
10.5% Preference shares	10,00,000
9% debentures	20,00,000

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3 | ANALYSE | Marks: 10

A Ltd. has the following capital structure:

	Rs.
Equity share capital (of Rs. 100 each)	1,00,000
10% Preference share capital (of Rs. 100 each)	2,00,000
10% debentures (of Rs. 100 each)	2,00,000

If EBIT is (i) Rs. 1,00,000 (ii) Rs. 80,000 and (iii) Rs. 1,20,000,

		Calculate financial leverage under three situations. Assume 50% tax rate.	
4	ANALYSE	The following particulars are available: Sales Rs. 1,00,000 Variable Cost Rs. 70,000 Fixed Cost Rs. 20,000 Long term loans Rs. 50,000 At 10 percent, Compute the combined leverage.	10
1	EVALUATE	A company is contemplating to raise additional fund of Rs. 20,00,000 for setting up a project. The company expects, EBIT of Rs. 8,00,000 from the project. Following alternative plans are available: (a) To raise Rs. 20,00,000 by way of equity share of Rs. 10 each (b) To raise Rs. 10,00,000 by way of equity shares and Rs. 10,00,000 by way of debt @ 10%. (c) To raise Rs. 6,00,000 by way of equity and rest Rs. 14,00,000 by way of preferences shares @ 14%. (d) To raise Rs. 6,00,000 by equity shares Rs. 6,00,000 by 10% equity Rs. 8,00,000 by 14% Preference shares The company is in 60% tax bracket which option is best?	10

UNIT V - Capital Budgeting

Sr. no	Question Type	Question	Marks
1	REMEMBERING	**MCQs** 1. All of the following influence capital budgeting cash flows EXCEPT: a. Accelerated depreciation. b. Tax rate changes. c. Salvage value. d. Method of project financing used. 2. A capital investment is one that a. Applies only to investment in fixed assets. b. Is only undertaken by large corporations. c. Has the prospect of short-term benefits. d. Has the prospect of long-term benefits.	2
2	REMEMBERING	**MCQ** 1. If capital is to be rationed for only the current period, a firm should most likely first consider selecting projects by descending order of. a. Internal rate of return (IRR) b. Profitability index (PI) c. Payback period (PBP) d. Net present value (NPV) 2.The method provides correct rankings of mutually exclusive projects, when the firm is not subject to capital rationing. a. Internal rate of return (IRR) b. Profitability index (PI) c. Payback period (PBP) d. Net present value (NPV)	2
3	REMEMBERING	What is meant by capital budgeting decisions?	2
4	REMEMBERING	Define the term Capital Budgeting.	2
5	REMEMBERING	**State whether each of the following statements is True (T) or False (F):** (i) Investment decisions and capital budgeting are same. (ii) Capital budgeting decisions are long term decisions. (iii) Capital budgeting and capital rationing are alternative to each other. (iv) Correct capital budgeting decisions can be taken by comparing the cost with future benefits.	2

6	REMEMBERING	What do you mean by Time Value of Money?	2
7	REMEMBERING	What is meant by Pay Back Method?	2
8	REMEMBERING	Why Capital Budgeting is significant for a firm?	2
9	REMEMBERING	State the Tools used for the Evaluation of Capital Budgeting?	2
10	REMEMBERING	What are the features of Discounted Cash Flow Method?	2
11	REMEMBERING	What are the traditional tools of evaluation of the project?	2
12	REMEMBERING	What are the modern tools of evaluation of the project?	2
13	REMEMBERING	What is PI.	2
14	REMEMBERING	What is the Difference between ARR and IRR.	2
15	REMEMBERING	What is meant by NPV?	2
16	REMEMBERING	How do you calculate the account rate of return?	2
17	REMEMBERING	What is the relation between Present Value and Future Value?	2
18	REMEMBERING	Write the different names of IRR.	2
1	UNDERSTANDING	How capital budgeting decisions are taken?	5
2	UNDERSTANDING	Explain briefly the importance and scope of capital budgeting?	5
3	UNDERSTANDING	Explain by giving any four reasons, why capital budgeting decisions are important?	5
4	UNDERSTANDING	Explain the various steps involved in NPV Method?	5
5	UNDERSTANDING	Explain the merits and demerits of IRR Method.	5
6	UNDERSTANDING	Explain the merits and demerits of ARR Method.	5
7	UNDERSTANDING	Explain the merits and demerits of PI Method.	5
8	UNDERSTANDING	Explain the merits and demerits of NPV Method.	5
9	UNDERSTANDING	Explain the nature and significance of Capital Budgeting?	5
10	UNDERSTANDING	Explain the relationship between risk and return?	5
11	UNDERSTANDING	Critically examine the various steps involved in capital budgeting process?	5
12	UNDERSTANDING	Outline the financial management techniques of evaluation of capital investment in fixed assets?	5
1	APPLY	A company is considering an investment proposal to install new milling controls at a cost of Rs.50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before	10

<table>
<tr><td></td><td></td><td>depreciation and tax (CFBT) from the investment proposal are as follows:
<table><tr><th>Year</th><th>CFBT – Rupees</th></tr><tr><td>1</td><td>10,000</td></tr><tr><td>2</td><td>11,000</td></tr><tr><td>3</td><td>15,000</td></tr><tr><td>4</td><td>20,000</td></tr><tr><td>5</td><td>25,000</td></tr></table>Calculate Payback period and ARR</td><td></td></tr>
<tr><td>2</td><td>APPLY</td><td>ABC Ltd. is planning investment in new project. The investment of the company is Rs. 30,00,000. Assume cost of capital at 12%
<table><tr><th>Particulars</th><th>Project A</th><th>PV at 12%</th></tr><tr><td>1</td><td>7,00,000</td><td>0.893</td></tr><tr><td>2</td><td>10,00,000</td><td>0.797</td></tr><tr><td>3</td><td>9,00,000</td><td>0.712</td></tr><tr><td>4</td><td>8,00,000</td><td>0.636</td></tr><tr><td>5</td><td>4,00,000</td><td>0.567</td></tr></table>Find out Payback period, Net present value and Profitability of index.</td><td>10</td></tr>
<tr><td>3</td><td>APPLY</td><td>M/s. Balkrishna Industries Ltd. has following investment proposal which requires investment of Rs. 53,00,000 & has following income as cash inflows;
<table><tr><th>Year</th><th>Cash Inflows</th></tr><tr><td>1</td><td>16,00,000</td></tr><tr><td>2</td><td>18,00,000</td></tr><tr><td>3</td><td>20,00,000</td></tr><tr><td>4</td><td>15,00,000</td></tr><tr><td>5</td><td>15,00,000</td></tr><tr><td>6</td><td>10,00,000</td></tr></table>Assume cost of capital as 10% Calculate payback period, Net Present Value and Profitability Index.</td><td>10</td></tr>
<tr><td>1</td><td>ANALYSE</td><td>From the following Information of Rushi Pvt. Ltd. suggest which of the machine to be purchased Expected Earnings after tax are given below Each Machine requires investment of Rs. 4,00,000.</td><td>10</td></tr>
</table>

<table>
<tr><td></td><td></td><td>
<table>
<tr><th>Year</th><th>Machin A cashflow</th><th>Machine - B cashflow</th></tr>
<tr><td>0</td><td>(4,00,000)</td><td>(4,00,000)</td></tr>
<tr><td>l</td><td>40,000</td><td>l,20,000</td></tr>
<tr><td>2</td><td>l,20,000</td><td>l,60,000</td></tr>
<tr><td>3</td><td>l,60,000</td><td>2,00,000</td></tr>
<tr><td>4</td><td>2,40,000</td><td>l,20,000</td></tr>
<tr><td>5</td><td>l,60,000</td><td>80,000</td></tr>
</table>
Cost of capital is l0%. Calculate Net present value & profitability index.
</td><td></td></tr>
<tr><td>2</td><td>ANALYSE</td><td>
A leading apparel Mfg. Co. is considering a replacement of its existing cutting machine with a new automatic machine to improve the productivity. The cost of new machine is Rs. 25 lakhs. The cost of the company’s capital is l0%. The incremental cash flows projected during five years period are estimated as follows.
<table>
<tr><th>Year</th><th>l</th><th>2</th><th>3</th><th>4</th><th>5</th></tr>
<tr><td>Cash flows (Rs. In lakhs)</td><td>2.5</td><td>5.0</td><td>8.0</td><td>l0.0</td><td>l2.5</td></tr>
<tr><td>PVF at l0%</td><td>0.909</td><td>0.826</td><td>0.75l</td><td>0.683</td><td>0.62l</td></tr>
</table>
Comment on the suitability of the project by using NPV and PI.
</td><td>10</td></tr>
<tr><td>1</td><td>EVALUATE</td><td>
A Firm whose cost of capital is 10% and considering two mutually exclusive proposals X and Y. The details of which are as follows:
<table>
<tr><th>Particulars</th><th>Proposal X</th><th>Proposal Y</th></tr>
<tr><td>Initial investment</td><td>15,00,000</td><td>15,00,000</td></tr>
<tr><td>Cash inflows for 1st year</td><td>1,50,000</td><td>6,00,000</td></tr>
<tr><td>2nd year</td><td>2,50,000</td><td>6,50,000</td></tr>
<tr><td>3rd year</td><td>3,50,000</td><td>5,50,000</td></tr>
<tr><td>4th year</td><td>5,50,000</td><td>4,50,000</td></tr>
<tr><td>5th year</td><td>4,00,000</td><td>3,50,000</td></tr>
</table>
Calculate NPV @10% (PV factor 0.909, 0.826, 0.751, 0.683 and 0.621 for respective 5 year)
</td><td>10</td></tr>
</table>

2	EVALUATE	From the following information of a Company suggest which of the machine to be purchased Expected earnings after tax are given below. Each machine requires investment of Rs. 4,00,000.	10

Year	Machine A Cash Flow	Machine B Cash Flow
0	(4,00,000)	(4,00,000)
1	40,000	1,20,000
2	1,20,000	1,60,000
3	1,60,000	2,00,000
4	2,40,000	1,20,000
5	1,60,000	80,000

Cost of Capital is 10%. Calculate Net present value & profitability Index.

………………………. THANKS………………………..