Time Value of Money

Q1. The company offers to refund an amount of Rs. 44650 at the end of 5 years for a deposit of Rs. 6000 made annually. Find out the implicit rate of Interest offered by the company.

Q2. The loan of Rs. 1,00,000 is taken from a bank on which interest is payable 10% p.a. If the loan is repaid in annual instalments in a period of 15 years, find out the annual amount of instalment.

Leverage

Q1. XYZ company has three financial plans, calculate operating and financial leverage on the basis of following information. Also find the value of the highest and the lowest combined leverage

Production	800 units
Selling Price per unit	Rs. 15
Variable cost per unit	Rs. 10

Fixed Cost

Situation A	Rs. 1000
Situation B	Rs. 2000
Situation C	Rs. 3000

Capital Structure

	Plant -1	Plant-2	Plant-3
Equity capital	Rs. 5000	Rs. 7500	Rs. 2500
12% Debt	5000	2500	7500

Q2. A company has a sales of Rs. 1 lac. The variable cost is 40% of the sales and Fixed cost is Rs. 30,000. The amount of interest on long term debts is Rs. 10,000. Calculate the composite leverage and illustrate its impact if sales increase by 5%.

Capital Budgeting

Q1. ABC Company has an investment opportunity costing Rs. 100,000 with the following cash inflow (After tax and before depreciation)

Year	Inflows
1	17000
2	17000
3	17000
4	17000
5	17000
6	18000
7	20000
8	15000
9	14000
10	12000

Using 10% as cost of capital determine 1. NPV and 2. PI

Q2. Equipment A has a cost of Rs. 75000 and net cash flow of Rs. 20000 per year for six years. A substitute equipment B would cost Rs. 50000 and generate the cash flowof Rs. 14000 for Six years. The required rate of return is 11%. Calculate NPV and IRR. Which equipment should be accepted and why?

Q3. XYZ. Ltd. Wants to replace its existing plant. It has received the following mutually exclusive proposals whose expected cost is 2,50,000 each and have an expected life of 5,4 and 3 years respectively. The company's required rate of return is 10%. The anticipated cash inflows after taxes for the three plants are as following

Years	Plant-1	Plant-2	Plant-3
1	80,000	1,10,000	1,30,000
2	60,000	90,000	1,10,000
3	60,000	85,000	20,000
4	60,000	35,000	
5	1,80,000		

Calculate NPV.

Q4. XYZ Ltd. Is considering two different investment proposals. The details are as following :

	Proposal-1	Proposal-2
Investment Estimated	9500	20000
Cash-1	4000	8000
Cash-2	4000	8000
Cash-3	4500	12000

Calculate IRR for both Projects.

<u>Cost of capital and value of the firm</u>

Q1. A company is planning to make an investment of Rs. 10,00,000 and it expects to earn rs. 5,00,000 by the year end. Presently the company has 50,000 outstanding shares of the company in trading at a price of Rs. 125. The company expects to pay the shareholder Rs. 10 as dividend next year. The company's required rate of return is 15% usinf MM approach, find the following

1. Value of firm if dividend is declared
2. Value of firm if dividend is not declared

Q2. A company is considering raising Rs. 50 Crore by issuing CPs for ninety days. CPs will be sold at adiscount of 10% . Stamp duty charges will be 0.5% of the size of the issue. The issuing and other charges will amount to rs. 2.50 lac and rating charges to 0.40% of the issue size. Calculate effective cost of CP.

Q3. X ltd. Is expecting an annual EBIT of Rs. 1lac. The company has 4 lac in 10% debentures. The cost of equity is 12.5%. Calculate overall value of the firm and overall cost of capital.

<u>Operating Cycle</u>

Q1. Calculate the operating cycle of the company

Particulars	Amount

Raw material Consumption P.a.	8,42,000
Annual Cost of Production	14,25,000
Annual Cost of Sales	15,30,000
Average value of current assets hold	
Raw material	1,24,000
Work-in-progress	72,000
Finished goods	1,22,000
Debtors	2,60,000

The company gets 30 days credit from its suppliers. All sales from the firm are made on credit basis. Number of days in year -365.

Q2. A manufacturing company has an expected usage of 50000 units of certain product during next year. The cost of processing an order is Rs. 20 and the carrying cost per unit is rs. 0.50 for one year. Lead time on an order is five days and the company will keep a reserve supply for two days' usage. Calculate 1. Economic Order quantity 2. Re-order point. (Assume 250 days in a year).

Theory Questions

Short Notes

1. Over and under trading
2. Global Depositary Receipts
3. Factoring
4. Commercial Papers
5. Wealth maximization Vs. Profit maximization (Objectives of financial management)
6. Define annuity and annuity due.
7. Sensitivity analysis
8. Risk adjusted discount rate
9. Certainty Equivalent coefficient
10. Commercial Paper and Certificate of deposit
11. Decision tree analysis
12. Forfaiting
13. Book Building
14. Venture capital
15. Stock Invest
16. Loan Financing
17. Types of shares
18. Zero coupon bonds
19. Credit rating
20. Depository participants
21. Loan Syndication

Q2. Enumerate the factors which affect cash needs of the firm. What are the objectives of cash management? DO you think excess of cash holdings is not good for a company? How do you calculate appropriate level of cash holding (Modals).

Q3. State different approaches for the calculation of the cost of equity. Are retained earnings cost free.

Q4. What is financial management? How do modern financial mangers differ from traditional managers? What are the roles and functions of modern financial managers? Role of finance in other areas of a diversified firm.

Q5. Define capital structure. What are Elements of capital structure? What do you mean by appropriate capital structure? Explain the following approaches of capital structure

a) EBIT-EPS approach
b) Valuation approach
c) Cash flow approach

Q6. Explain the factors influencing capital structure. Explain various capital structure theories.

Q7. What is dividend policy of an organization? What are the factors which affect dividend policy of an organization? What are different payout methods? Explain MM approach of dividend Irrelevance and its deficiencies.

Q8. Explain working capital management. Importance of working capital management. Type of working capital and approaches of working capital management. Explain JIT approach. Q9. Explain meaning and importance of valuation concept. How does valuation concept help in decision making?

Q10. Define leverage. Its types and significance.

Q11. Critically evaluate the credit policy and credit control about receivables.

Q12. Explain different relevant and irrelevant dividend models. (what is residual dividend policy). Why do companies pay dividends?

Q13. How to calculate cost of preference shares?

Q14. What are the objectives of inventory management? Define economic order quantity and how it is calculated?

Q15. What is time value of money? Explain its approaches.

Q16. What is capital Budgeting? Its procedure and importance. Types of capital budgeting decisions.

Q17. What is cash budget and how it is prepared.

Q18. Importance of trade credit and accruals in working capital management. What is the cost of these sources?

Q19. What is Risk? What is risk adjusted discount return.