

Financial Management**7:00pm to 9:00pm****Semester – II****June 7, 2011****Section - A**
(1 mark each)

1. _____ is based on cash flows
 - a) profit maximization
 - b) competition maximization
 - c) **wealth maximization**
 - d) investment maximization
2. _____ consider time value of money
 - a) Profit maximization
 - b) Competition maximization
 - c) Investment maximization
 - d) **Wealth maximization**
3. _____ leads to investment in real assets
 - a) liquidity decision
 - b) **investment decision**
 - c) dividend decision
 - d) tax dividend
4. seasonal peak requirements to be met from _____ from banks
 - a) long term borrowing
 - b) medium term borrowing
 - c) **short term borrowing**
 - d) medium to large term borrowing.
5. _____ has a major impact on the total assets that the firm owns
 - a) sources of finance available
 - b) status of the company in the industry
 - c) **nature of the business**
 - d) flexibility
6. variable working capital will have to be financed only by _____
 - a) short term finance
 - b) long term finance
 - c) both a and b
 - d) none of the above
7. _____ of a firm refers to the composition of its long term funds.
 - a) **capitalization**
 - b) equitilization
 - c) undercapitalization
 - d) overcapitalization
8. Capital intensive industries require _____ amount of working capital
 - a) lower
 - b) greater
 - c) equal

d) none of the above

9. Financial Management deals with procurement of funds at the least cost and _____ funds

a) **Effective Utilization**

b) Procurement of funds

c) Formation of funds

d) Effective deployment

10. A company is said to be _____ when its total capital exceeds the true value of its assets

a) **overcapitalized**

b) undercapitalized

c) capitalized

d) equity oriented

11. During periods of inflation, a rupee has a _____ than a rupee in future

a) lower purchasing power

b) medium purchasing power

c) **higher purchasing power**

d) none of the above

12. _____ created out of fixed payments each period to accumulate to a future sum after a specified period

a) intrinsic value

b) compounded value

c) **sinking fund**

d) capital recovery

13. an annuity for an infinite time period is called _____

a) intrinsic value

b) **perpetuity**

c) compounded value

d) sinking fund income

14. _____ per share is generally higher than the book value per share for profitable and growing firms

a) **market value**

b) book value

c) net worth value

d) intrinsic value

15. Formulation of inventory policy is an important element of _____

a) **liquidity decision**

b) investment decision

c) dividend decision

d) tax dividend

16. When K_d is lesser than the coupon rate, the value of the bond is _____ than its face value

a) lesser

b) equal

c) **greater**

d) greater or equal

17. The _____ is the net worth of the company is divided by the number of outstanding equity share.

- a) market value per share
- b) book value per share
- c) net value per share
- d) none of the above

18. The capital structure of the company should generate _____ - to the shareholder

- a) minimum returns
- b) **maximum returns**
- c) minimax returns
- d) equal returns

19. The capital structure of a company should be within the _____

- a) cash available capacity
- b) assets available capacity
- c) **debt capacity**
- d) equity capacity

20. According to dividend forecast approach, the intrinsic value of an equity share is the sum of _____ associated with it.

- a) present value of profit
- b) present value of profit after tax
- c) present value of investment
- d) **present value of dividend**

21. _____ arises due to the presence of fixed operating expenses in the firm's income flows.

- a) finance leverage
- b) combined leverage
- c) flexible leverage
- d) **operating leverage**

22. Dividend on _____ is a fixed charge

- a) **preference share**
- b) equity share
- c) both a and b
- d) none of the above

23. Financial leverage is also referred to as _____

- a) trading on business
- b) trading on debentures
- c) **trading on equity**
- d) trading on preference shares

24. Social, political, economic and technological forces make capital budgeting decisions _____

- a) highly easy
- b) **highly complex**
- c) slightly easy
- d) slightly complex

25. _____ are very expensive
- capital budgeting decisions**
 - fixed asset purchase decisions
 - both a and b
 - none of the above
26. Capital expenditure decisions are _____
- reversible
 - irreversible**
 - both a and b
 - none of the above
27. Permanent working capital is called _____ working capital
- variable
 - fixed**
 - semi variable
 - none of the above
28. Post completion audit is _____ in the phases of capital budgeting decisions
- first step
 - final step**
 - second step
 - none of the above
29. _____ and revenue generation are the two important categories of the capital budgeting.
- cost maximization
 - profit maximization
 - cost reduction**
 - cost maintenance
30. _____ examines the project from the social point of view.
- technical appraisal
 - financial appraisal
 - economic appraisal**
 - competitive appraisal
31. _____ viability of a project is examined by financial appraisal
- technical
 - financial**
 - economic
 - competitive
32. A _____ is not relevant cost for the project decision
- fixed cost
 - variable cost
 - sunk cost**
 - none of the above
33. $NPV > \text{Zero}$ = _____
- accept**

- b) reject
- c) equal
- d) none of the above

34. Market risk is measured by the effect of the project on the _____ of the firm

- a) risk bearing capacity
- b) variance
- c) capital adequacy
- d) **beta**

35. Risk premium is the _____ that the investors require as compensation for assumption of additional risks of project

- a) additional profit
- b) **additional return**
- c) risk adjusted rate of return
- d) none of the above

36. Higher the risk _____ the premium

- a) lower
- b) greater
- c) equal
- d) none of the above

37. _____ are effectively handled by decision tree approach

- a) easy project
- b) complex project
- c) comparative project
- d) none of the above

38. When a firm imposes a constraints on the total size of its capital budget, it is known as _____

- a) **capital rationing**
- b) capital budgeting
- c) capital shortage
- d) capital adequacy

39. Prepaid expenses are _____

- a) fixed asset
- b) secured loan
- c) current liabilities
- d) **current asset**

40. Provision for tax is _____

- a) fixed asset
- b) secured loan
- c) **current liabilities**
- d) current asset

Section - B
(2 marks each)

CASE: (41-43)

Find PI for project A B & C?

Project	Initial Cash outlay	Cash inflow		
		Year 1	Year 2	Year 3
A	1,00,000	60,000	50,000	40,000
B	50,000	20,000	40,000	20,000
C	50,000	20,000	30,000	30,000

Cost of Capital is 15%. Find profitability index

41. For project A

- Ans.
- [a] 1.0432
 - [b] 1.3215
 - [c] 1.1632**
 - [d] 1.9465

42. For project B

- Ans.
- [a] 1.0132
 - [b] 1.2160**
 - [c] 1.3632
 - [d] 1.5465

43. For project C

- Ans.
- [a] 1.0031
 - [b] 1.1549
 - [c] 1.1964**
 - [d] 1.2341

44. Under the XYZ Bank's Cash Multiplier Scheme, deposits can be made for periods ranging from 3 months to 5 years. Every quarter, interest is added to the principal. The applicable rate of interest is 9% for deposits less than 23 months and 10% for periods more than 24 months. What will the amount of Rs. 1000 today be after 2 years?

Ans:

- a) Rs.1018
- b) Rs.1218**
- c) Rs.1415
- d) Rs.1475

45. Under the ABC Bank's Cash Multiplier scheme, deposits can be made for periods ranging from 3 months to 5 years. Every quarter interest is added to the principal. The applicable rate of interest is 9% for the deposits less than 23 months and 10% for periods more than 24 months. What will be the amount of Rs.1000 today be after 2 years?

- Ans:
- [a] Rs.1212
 - [b] Rs.1121
 - [c] Rs.1221**

[c] Rs.1218

46. Calculate the value of an asset if the cash inflow is Rs.5000 per year for the next 6 years and the discount rate is 16%

- Ans:
- [a] Rs.18000
 - [b] Rs.18225
 - [C] Rs.18425**
 - [d] Rs.18800

47. If the current year's dividend is Rs.24, growth rate for one year is 10% and the required return on the stock is 16%, what is the intrinsic value of the stock?

- Ans:
- [a] Rs.440**
 - [b] Rs.450
 - [c] Rs.475
 - [d] Rs.480

CASE: (48-50)

A company has gathered the following information:

Annual Demand 30,000 units

Ordering Cost per order = Rs 20 (fixed)

Carrying Cost = Rs 19 per unit per annum

Purchase cost per unit i.e. price per unit = Rs 32 per unit

48. Determine EOQ,

- Ans.
- [a] 364 units**
 - [b] 374 units
 - [c] 292 units
 - [d] 342 units

49. Total number of orders in a year,

- Ans.
- [a] 80 orders
 - [b] 87 orders**
 - [c] 91 orders
 - [d] 99 orders

50. The time – gap between two orders,

- Ans.
- [a] 3.5 days
 - [b] 3.7 days
 - [c] 4.0 days**
 - [d] 4.5 days

51. XYZ Ltd. has taken a loan of Rs.5000000 from ABC Bank at 9% interest. What is the cost of term loan?

- Ans:
- [a] 4.5%
 - [b] 4.95%
 - [c] 5.25%
 - [d] 5.4%**

52. What is the rate of return for a company if its β is 1.5 risk free rate of return is 8% and the market rate of return is 20%

- Ans:
- [a] 0.24
 - [b] 0.25
 - [c] 0.26**
 - [d] 0.28

53. If Ms. Sejal expects to have an amount of Rs.1000 after one year what should be the amount she has to invest today if the bank is offering 10% interest rate.

- Ans:
- [a] Rs.900.00
 - [b] Rs.909.09**
 - [c] Rs.912.12
 - [d] Rs.920.10

54. X cool Air Ltd. would like to know the WACC. The following information is made available to you in this regard.

The after tax cost of capital are:

Cost of debt 9%

Cost of preference shares 15%

Cost of equity funds 18%

The capital structure is as follows:

Debt Rs.600000

Preference capital Rs.400000

Equity capital Rs.1000000

- Ans:
- [a] 12.7%
 - [b] 14.7%**
 - [c] 15%
 - [d] 13.5%

55. The following details are available in respect of the cash flows of two projects A & B.

Year	Project A Cash flows (Rs.)	Project B Cash flows (Rs.)
0	(4,00,000)	(5,00,000)
1	2,00,000	1,00,000
2	1,75,000	2,00,000
3	25,000	3,00,000
4	2,00,000	4,00,000
5	1,50,000	2,00,000

Pay back period for B is?

- Ans:
- [a] 2.17
 - [b] 2.37
 - [c] 2.67**
 - [d] 3.21

CASE: (56-60)

A project requires an initial outlay of Rs. 1, 00,000. It is expected to generate the cash inflows:

Year	Cash Inflows
1	50,000
2	50,000
3	30,000
4	40,000

56.What is the Npv @ 25%

- Ans. [a] **1,03,760**
 [b] 1,05,960
 [c] 1,64,870
 [d] 1,94,780

57.What is the Npv @ 26%

- Ans. [a] 1,01,760
[b] 1,02,049
 [c] 1,24,870
 [d] 1,44,780

58.What is the NPV @ 27%

- Ans. [a] 85,760
 [b] 99,960
[c] 1,00,392
 [d] 1,94,780

59.What is the NPV @ 28%

- Ans. [a] **98,789**
 [b] 1,05,960
 [c] 1,64,870
 [d] 1,74,950

60.What is IRR?

- Ans. [a] 22.24%
 [b] 25.34%
[c] 27.24%
 [d] 29.14%

Section - C
(4 marks each)

61.Mr. A purchases a bond whose face value is Rs. 1000, maturity period 5 years coupled with a normal interest rate 8%. The required rate of return is 10%. What is the price he should be willing to pay now to purchase the bond?

- Ans : [a] Rs. 920.50
 [b] Rs. 974.28
[c] Rs. 924.28
 [d] Rs. 915.15

62. A company has identified a project with an initial cash outlay of Rs. 50,000. The following distribution of cash flow is given below for the life of the project of 3 years.

Year 1		Year 2		Year 3	
Cash in flow	Probability	Cash inflow	Probability	Cash in flow	Probability
15,000	0.2	20,000	0.3	25,000	0.4
18,000	0.1	15,000	0.2	20,000	0.3
35,000	0.4	15,000	0.2	20,000	0.3
32,000	0.3	30,000	0.2	45,000	0.1

Discount rate is 10%. Expected NPV is Rs?

- Ans.
- [a] 15,045
 - [b] 16,749
 - [c] 17,954
 - [d] 17,043**

63. ABC Cements Ltd. has an EBIT of Rs. 500000 at 5000 units' production and sales. The capital structure is as follows :

Capital structure	Amount Rs.
Paid up capital 500000 equity shares of Rs. 10 each	5000000
12% Debentures	400000
10% Preference shares of Rs. 100 each	400000
Total	5800000

Corporate tax rate may be taken at 40%, Find DFL?

- Ans :
- [a] 1.10
 - [b] 1.15
 - [c] 1.30**
 - [d] 1.50

64. A bond has a face value of Rs. 1000 with a 9 year maturity period. Its current market price is Rs. 850. It carries an interest rate of 8%. What shall be the rate of return on this bond if it is held till its maturity?

- Ans:
- [a] $K_d = 10.10\%$
 - [b] $K_d = 10.17\%$
 - [c] $K_d = 10.71\%$**
 - [d] $K_d = 11.51\%$

65. PQR Pharma's current dividend is Rs. 5. It expects to have a supernormal growth period running to 5 years during which the growth rate would be 25%. The company expects normal growth rate of 8% after the period of supernormal growth period. The investors' required rate of return is 15%. Calculate what the value of one share of this company is worth.

- Ans ;
- [a] Rs. 150.00

[b] Rs. 147.55

[c] Rs. 149.50

[d] Rs. 155.70

66. ABC Enterprise wants to have an issue of non-convertible debentures for Rs. 10 Cr. Each debenture is of a par value of Rs. 100 having an interest rate of 15%. Interest is payable annually and they are redeemable after 8 years at a premium of 5%. The company is planning to issue the NCD at a discount of 3% to help in quick subscription. If the corporate tax rate is 50%, what is the cost of debenture to the company?

Ans ;

[a] $K_d = 8.00\%$

[b] $K_d = 8.40\%$

[c] $K_d = 8.25\%$

[d] $K_d = 8.90\%$

67. A company is currently allowing its customers, 30 days of credit. Its present sales are Rs. 100 million. The firm's cost of capital is 10% and the ratio of variable cost to sales is 0.80. The company is considering extending its credit period to 60 days. Such an extension will increase the sales of the firm by Rs. 100 million. Bad debts on additional sales would be 8%. Tax rate is 30%.

What is change in profit / loss

Ans:

[a] 125667

[b] 124444

[c] 126333

[d] 126667

68. The fixed deposit scheme of a bank offers the following interest rates :

Period of deposit	Rate per annum
<45 days	9 %
46 days to 179 days	10%
180 days to 365 days	10.5%
365 days and above	11%

How much does an investment of Rs. 10000 invested today grow to in 3 years?

Ans:

[a] Rs. 13680

[b] Rs. 13860

[c] Rs. 13800

[d] Rs. 13620

69. MPQ Packers Ltd. has the following capital structure :

Rs. In lakhs

Equity capital (Rs. 10 par value)	200
14% Preference share capital Rs. 100 each	100
Retained earnings	100
12% debentures (Rs. 100 each)	300
11% Term loan from ICICI bank	50
Total	750

The market price per equity share is Rs. 32. The company is expected to declare a dividend per share of Rs. 2 per share and there will be a growth of 10% in the dividends for the next 5 years. The preference shares are redeemable at a premium of Rs. 5 per share after 8 years and are currently traded at Rs. 84 in the market. Debenture redemption will take place after 7 years at a premium of Rs. 5 per debenture and their current market price is Rs. 90 per unit. The corporate tax rate is 40%. Calculate the WACC.

- Ans : **[a] 12.56%**
 [b] 11.50%
 [c] 12.59%
 [d] 12.50%

70. An investor may be interested in investing money in installments and wish to know the value of his savings after n years. For example, Mr. M invests Rs. 500, Rs. 1000, Rs. 1500, Rs. 2000 and Rs. 2500 at the end of each year for 5 years. Calculate the value at the end of 5 years compounded annually if the rate of interest is 5% p.a.

- Ans; [a] Rs. 8000
 [b] Rs. 8020
 [c] Rs. 6050
 [d] Rs. 7090

71. Calculate the DTL of M/S PQR Enterprises Ltd. given the following information.

Quantity sold	10000 units
Variable cost per unit	Rs. 100 per unit
Selling price per unit	Rs. 500 per unit
Fixed expenses	Rs. 1000000
Number of equity shares	100000
Debt	Rs. 1000000 @ 20% interest
Preference shares dividend	10000 shares of Rs. 100 each @ 10%
Tax rate	50%

- Ans. **[a] 1.54**
 [b] 1.74
 [c] 1.50
 [d] 1.24

72. A firm is considering an investment proposal which requires an initial cash outlay of Rs. 8 lakh now and Rs. 2 lakh at the end of the third year. It is expected to generate cash flows as under :

Year Cash inflows

1	3,50,000
2	8,00,000
3	2,50,000

Apply the discount rate of 12% and profitability index is?

- Ans. **[a] 1.177**
 [b] 1.717
 [c] 1.071
 [d] 1.051

73.A manufacturing company has an expected usage of 50000 units of certain product during the next year. Re cost of processing an order is Rs.20 and the carrying cost per unit per annum is Rs.0.5 Lead time for an order is 5 days and the company will keep a reserve of 2 days usage. Calculate re-order point. Assume 250 days in a year.

- Ans: **[a] 1400 units**
 [b] 1500 units
 [c] 1900 units
 [d] 2500 units

74.The company is considering relaxation of its credit policy. Such relaxation would increase the sales by Rs.15 million on which bad debts losses would be 10% The contribution margin ratio for the firm is 20% Average collection period is 40 days. Post tax cost of fund is 10% Tax applicable to the firm is 30%. What is increase in profit / loss.

- Ans: [a] 850333
[b] 916667
 [c] 105014
 [d] 111027

75.A project costs Rs. 25000 and is expected to generate cash inflows as

Year	Cash in Flows (Rs.)
1	10,000
2	8,000
3	9,000
4	6,000
5	7,000

The cost of capital is 12%. Calculate NPV

- Ans. [a] 4000
[b] 4499
 [c] 4599
 [d] 4955.