BBA II Year/ III Semester
Question Bank for Fundamentals of Financial Management

Unit I

Short Questions:

1. Meaning of Financial Management
2. Finance Function
3. Profit Maximization vs Wealth Maximization
4. Role of Finance Manager
5. Time Value of Money
6. Discounting and compounding techniques

Long Questions:

1. Explain the scope of Financial Management.
2. Explain the objectives of Financial Management.
3. Discuss the techniques of Time Value of Money.
4. Determine the Present value of the following cash flows assuming a discount rate of 8%.

Year	Cash Flows (Rs)
1	10,000
2	20,000
3	10,000
4	5,000

5. Determine the Present value of the following cash flows assuming a discount rate of 5%.

Year	Cash Flows (Rs)
1	1,000
2	2,000
3	3,000
4	4,000
5	5,000

6. Calculate the Present value of the following cash flows assuming a discount rate of 10%.

Year	Cash Flows (Rs)
1	5,000
2	10,000
3	10,000
4	3,000
5	2,000

Unit II

Short Questions:

1. Financial Leverage

2. Capital Structure
3. Cost of Capital
4. Overall Cost of Capital

Long Questions:

1. Discuss the factors affecting Capital Structure decisions of a firm.
2. Explain the types of Cost of Capital.
3. (a) X Ltd. issues Rs. 50,000 8% debentures at par. The tax rate applicable to the company is 50%. Compute the cost of debt capital.
(b) Y Ltd. issues Rs. 50,000 8% debentures at a premium of 10%. The tax rate applicable to the company is 60%. Compute the cost of debt capital.
4. A Ltd. issues Rs. 60,000 8% debentures at a discount of 5%. The tax rate applicable to the company is 60%. Compute the cost of debt capital.
5. B Ltd. issues Rs. 50,000 8% debentures at a premium of 10%. The tax rate applicable to the company is 60%. Compute the cost of debt capital.
6. A company issues Rs. 10,00,000 10% redeemable debentures at a discount of 5%. The costs of floatation amount to Rs. 30,000. The debentures are redeemable after 5 years. Calculate before-tax and after-tax cost of debt assuming a tax rate of 50%.
7. Assuming that a firm pays tax at 50% rate, compute the after tax cost of debt capital in the following cases:
(a) A perpetual bond sold at par, coupon rate of interest being 7%.
(b) A 10 year, 8% Rs.1000 per bond sold at Rs. 950 less 4% underwriting commission.
8. A firm has the following capital structure and after-tax costs for the different sources of funds used:

Source of funds	*Amount Rs.*	*Proportion %*	*After-tax cost %*
Debt	15,00,000	25	5
Preference shares	12,00,000	20	10
Equity shares	18,00,000	30	12
Retained earnings	15,00,000	25	11
Total	60,00,000	100	

You are required to compute the weighted average cost of capital.
9. Calculate the overall cost of capital (before-tax and after-tax) from the following information:

Type of capital	*Proportion in the capital structure*	*Before-tax cost of capital*
Equity capital	25%	24.44%
Preference capital	10%	27.29%
Debt capital	50%	7.99%
Retained earnings	15%	18.33%

10. Calculate the overall cost of capital from the following information:

Source of funds	*Amount Rs.*	*After-tax cost %*
Equity capital	10,00,000	18%

Retained earnings	5,00,000	15%
Preference capital	7,00,000	14%
Debt capital	6,00,000	8%

Unit III

Short Questions:

1. Capital Budgeting
2. Techniques of Capital Budgeting
3. Pay-back period
4. Net Present Value

Long Questions:

1. What are the features of Capital Budgeting?
2. Explain the process of Capital Budgeting.
3. No project is acceptable unless the yield is 10%. Cash Inflows and Outflows are given below:

Year	Outflows (Rs)	Inflows (Rs)
0	1,50,000	-
1	30,000	20,000
2		30,000
3		60,000
4		80,000
5		30,000

The salvage value at the end of the 5th year is Rs. 40,000. Calculate Net Present Value.

4. Assume that ABC Inc is considering two projects namely Project X and Project Y and wants to calculate the NPV for each project. Both project X and project Y is four-year project and cash flows of both the projects for four years are given below:

Year	Project A Cash Flows (Rs)	Project B Cash Flows (Rs)
1	5,000	1,000
2	4,000	3,000
3	3,000	4,000
4	1,000	6,750

The firm's cost of capital is 10% for each project and the initial investment amount is Rs. 10,000. Calculate the NPV of each project and determine in which project the firm should invest.

5. The cost of a project is Rs. 1,10,000. The cash inflows are:
   Year 1=Rs. 60,000; Year 2=Rs. 20,000; Year 3=Rs. 10,000; Year 4=Rs. 50,000.
   Determine the Internal Rate of Return.
6. Determine the Internal Rate of Return of each project.

Year	Project X	Project Y

	Cash Flows (Rs)	Cash Flows (Rs)
0	20,000	20,000
1	3500	2180
2	8000	5000
3	9000	3000
4	7500	4550
5	2000	3000

Unit IV

Short Questions:

1. Receivables Management
2. Working Capital Cycle
3. Inventory Management
4. Motives for holding cash

Long Questions:

1. Discuss the various determinants of Working Capital Cycle.
2. Problem on Estimation of Working Capital Requirements.
3. Discuss the importance of Inventory Management.
4. From the following information, find out the Economic Order Quantity.
   Annual Usage 10,000 units
   Cost of placing and receiving one order Rs. 50.
   Cost of materials per unit Rs. 25
   Annual carrying cost of one unit: 10% of inventory value.
5. From the following information, find out the Economic Order Quantity.
   Annual Usage Rs. 2,00,000
   Cost of placing and receiving one order Rs. 80.
   Annual carrying cost of one unit: 10% of inventory value.
6. The annual demand for a product is 6400 units. The unit cost is Rs. 6 and inventory carrying cost per unit per annum is 25% of the average inventory cost. If the cost of procurement is Rs. 75, determine:
   (a) Economic Order Quantity
   (b) Number of orders per annum
   (c) Time between two consecutive orders
7. A manufacturing company uses Rs. 1,00,000 materials per year. The administration cost per purchase is Rs. 100, and carrying cost is 20% of average inventory. Calculate the EOQ for the company.

Unit V

Short Questions:

1. Objectives of Dividend Policy
2. MM Dividend Irrelevance Theory
3. Types of Dividends

II. Long Questions:

1. Explain the determinants of Dividend Policy.

2. Explain the Relevance Theory of Dividend.
3. The following information is available in respect of a firm:
   Capitalisation rate: 10%
   Earnings per share: Rs. 50
   Assumed rate of return on investments: (i) 12% (ii) 8% (iii) 10%
   Show the effect of dividend policy on market price of shares applying Walter's formula when dividend pay-out ratio is:
   (a) 0% (b) 20% (c) 40% (d) 80% (e) 100%
4. The earnings per share of a company is Rs. 10. It has an internal rate of return of 15 percent and the cost of capital is 12.5 percent. The dividend per share is Rs. 4. If Walter's model is used what is the price of the share?
5. From the following information, determine the market value of equity shares of a company as per Walter's model: Earnings per share Rs. 4; Dividends per share Rs. 2.50; Capitalisation rate 8%; Internal Rate of return 15%.
6. The following information is available for Avanti Corporation Earnings per share Rs. 4.00; Internal Rate of return 18%; Required rate of return 15%. What will be the price per share as per Walter's model if the dividend pay-out ratio is 40%?
7. The following information is available in respect of ABC Ltd.

Rate of return on investment (r): (i) 15% (ii) 12% (iii) 10%
Cost of capital (k) = 12%
Earnings per share (E) = Rs. 10
Determine the value of its shares using Gordon's Model assuming the following:

D/P ratio (1-b)	Retention ratio (b)
100	0
80	20
40	60

8. The following information is available in respect of ABC Ltd.
   EPS Rs. 10 Rate of return 20%. Required rate of return 16%. Find out the market price of the share under Gordon model if the firm follows a dividend pay-out ratio of 50%.
9. A company has a EPS of Rs. 1.5, internal rate of return of 15% and retention ratio of 50%. If the required rate of return of the firm is 10%, determine the price of its share using Gordon model. What shall happen to the price of the share of the company has a retention ratio of 20%?
10. The following information is available in respect of XYZ Ltd.

Rate of return on investment (r): (i) 10% (ii) 12% (iii) 14%
Cost of capital (k) = 8%
Earnings per share (E) = Rs. 25
Determine the value of its shares using Gordon's Model assuming the following:

D/P ratio (1-b)	Retention ratio (b)
100	0

70	30
40	60