COURSE: B.COM (H.)

SEMESTER - II

PAPER: FINANCE FOR NON-FINANCE EXECUTIVES

QUESTION BANK

Ques 1 Discuss in detail the scope of financial management.

Ques 2. In what respect is the objective of wealth maximisation superior to profit maximization?

Ques 3. “The profit maximization is not an operationally feasible criterion.” Do you agree? Illustrateyour views.

Ques 4. What are the basic financial decisions? How do they involve risk return trade-off?

Ques 5 “Finance functions of a business is closely related to its other functions”. Discuss.

Ques 6 “Is Trade Credit a source of finance”. Discuss.

Ques 7. “Accruals are free source of finance”, comment.

Ques 8. Write a brief note on CP as a source of finance.

Ques 9. What is public deposit? Discuss its advantages and disadvantages

Ques 10 Mr Ramesh deposits ` 2,000 at the end of every year for 5 years in his savingaccount, paying 5% interest compounded annually. Determine the sum of money, he will have atthe end of the 5th year.

Ques 11Find the compound value of annuity, when three equal yearly payments of

` 25,000 are deposited into an account, that yields 7% compound interest.

Ques 12 Given the time value of money as 10% (i.e. the discounting factor), you arerequired to find out the present value of future cash inflows that will be received over the nextfour years.

Year Cash flows (`)

1 1,000

2 2,000

3 3,000

4 4,000

Ques 13 Calculate the present value of annuity of ` 500 received annually for four years,

when the discounting factor is 10%.

Ques 14 From the following dividend data of a company, calculate compound rate of

growth for period (1998 – 2003).

Year 1998 1999 2000 2001 2002 2003

Dividend per share (`) 21 22 25 26 28 31

Ques 15 Explain the meaning and importance of valuation concept. How does valuation concepthelp in decision making?

Ques 16. "A bird in hand is more preferable than two birds in the bush". Explain.

Ques 17 What is the relevance of cost of capital in capital budgeting decisions?

Ques 18. Write a note on CAPM approach for calculation of cost of equity.

Ques 19. State any four methods of computing cost of equity.

Ques 20. The basic formula to calculate the cost of equity is D/P + g. Explain its rationale.

Ques 21 How is cost of debt calculated?

Ques 22. How is cost of preference share calculated?

Ques 23. Discuss the following bases for determining the weights in cost of capital calculation, bookvalues, target capital structure and market values.

Ques 24 How should you handle the flotation costs in the determination of cost of capital?

Question 25 Critically evaluate the different approaches to the calculation of cost of equity capital.

Ques 26Distinguish between capital structure and financial structure.

Ques 27 What basic principles will you advocate in the matter of deciding on a proper constitutionof capital structure for a firm?

Ques 28. Sales ` 1,00,000 units at ` 2 per unit, variable cost `0.70 per unit, fixed cost `1, 00,000, interest charges ` 3,668. Compute degree of operating leverage, financial leverage, and combined leverage.

Ques 29Explain the factors that determine the capital structure for a firm.

Ques 30. Illustrate the arbitrage process with suitable example.

Ques 31. Write a note on Trade Off theory.

Ques 32. What are the key features of an optimum capital structure?

Ques 33A project costs `20 lakh and yields annually a profit of `3, 00,000 after depreciation at 12½ per cent but before tax at 50 per cent. Calculate payback period and suggest whether it should be accepted or rejected based on 6 year standard pay back period.

Ques 34 The working result of two machines are given below

Machine X Machine Y

Cost 45,000 45,000

Sales per year 1,00,000 80,000

Total Cost Per Year 36,000 30,000

(excluding depreciation)

Expected Life 2 years 3 years

Which of the two should be preferred?

Ques 35 A choice is to be made between the two competing proposals which require an equal investment of ` 50000 and are expected to generate net cash flows as under:

Years Project A Project B
1 25000 10000
2 15000 12000
3 10000 18000
4 Nil 25000
5 12000 8000
6 6000 4000

Cost of capital of the company is 10%. The following are the present value factor at 10% p.a.

Year :1 2 3 4 5 6

P.V. Factor At 10% : 0.909 0.826 0.751 0.683 0.621 0.564

Which proposal should be selected using NPV method? Suggest the best project.

Solution: