COURSE: B.COM (H)

SEMESTER - II

PAPER: FINANCE FOR NON-FINANCE EXECUTIVES

ASSIGNMENT

Question 1 What are the steps involved in calculating a firm's WACC?

Question 2. What is cost of equity? Write a detailed note on the approaches available for computationof cost of equity.

Question 3From the following particulars of PQR Company, calculate operating and financial leverages. The company's current sales revenue is 15,00,000 lakh and sales are expected to increase by 25 per cent. 9,00,000 incurred on variable expenses for generating 15 lakh sales revenue. The fixed cost is 2,50,000. The company has 20 lakh equity shares capital and 20 lakh, 10 per cent debt capital. Calculate operating leverage and financial leverage. 10 equity and 50 per cent tax rate.

Question 4 Distinguish between operating and financial leverage.

Question 5 VS International Ltd., has a capital structure (all equity) comprising of ` 5,00,000 each share of ` 10. The firm wants to raise an additional ` 2,50,000 for expansion project. The firm has the following four alternative financial plans I, II, III and IV. If The firm is able to earn

an operating profit at ` 80,000 after additional investment and 50 per cent tax rate. Calculate EPS

for all four alternatives and select the preferable financial plan. Financial plans

I. Raise the entire amount in the form of equity capital.

II. Raise 50 per cent as equity capital and 50 per cent as 10 per cent debt capital.

III. Raise the entire amount as 12 per cent debentures.

IV. Raise 50 per cent equity capital and 50 per cent preference share capital at 10 per cent.

CLASS TEST

Question 1“Evaluating capital budgeting proposals without cost of capital is not possible”. Discuss.

Question 2 XYZ company supplied the following information and requested you to compute the cost of capital based on book values and market values.

Source of Finance Book Value Market Value After Tax Cost (%)

Equity capital 10,00,000 15,00,000 12

Long term debt 8,00,000 7,50,000 7

Short term debt 2,00,000 2,00,000 4

Total 20,00,000 24,50,000

Question 3Calculate operating and financial leverages under situations A, B and C and Financialplan 1,2, and 3 respectively from the following functions of XYZ Co. Also find out thecombination of operating and financial leverage that gives the highest value and leastvalue:

Installed capacity = 12,000 units;

Actual production & sales = 800 units

Selling price = 15p.u;

Variable cost = 10 p.u

Fixed Cost = Situation A, ` 1000; Situation B, ` 2000; Situation C, ` 3000

Question 4 A company’s expected annual net operating income (EBIT) is 1,00,000. Thecompany has 5,00,000, 10% debentures. The overall cost of capital is 12.5%. Calculate the value ofthe firm and cost of equity according to NOI approach.

Question 5 WDCLtd., has a total capitalisation of 10 lakh consisting entirely of equity capital (10 each share). It is planning to raise an additional funds of ` 5 lakh for implementing capitalbudgeting project. There are two alternatives available to the company.

a) Entire equity share capital by issue of shares.b) Entire amount by debt at 10 per cent interest.

The company is in the tax brackets of 50 per cent. Calculate indifference point.

MULTIPLE CHOICE QUESTIONS

1.Basic objective of Financial Management is ________________.

A. Maximization of profit.

B. Maximization of shareholder's wealth

C. Ensuring Financial discipline in the firm.

D. All of these.

ANSWER: B

2.Financial structure refers to ________________.

A. Short-term resources.

B. All the financial resources.

C. Long-term resources.

D. All of these.

ANSWER: B

3.The market value of the firm is the result of__________.

A. Dividend decisions.

B. Working capital decisions.

C. Capital budgeting decisions.

D. Trade-off between risk and return.

ANSWER: D

4.Cost of capital is __________________.

A. Lesser than the cost of debt capital.

B. Equal to the last dividend paid to the equity shareholders.

C. Equal to the dividend expectations of equity shareholders for the coming year.

D. None of the above.

ANSWER: D

5.In Walter model formula D stands for _________________.

A. Dividend per share.

B. Direct dividend.

C. Direct earnings.

6.The risk free rate of return is 8% the expected rate of return on market portfolio is15% the beta of eco boards equity stock is 1.4.the required rate on eco boards equity is__________________.

A.15.4%.

B.16.8%.

C.17.2%.

D.17.8%.

ANSWER: D

7.________ 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.

ANSWER: A

8.__________ 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.

ANSWER: B

9.The __________ decision involves a determination of the total amount of assets needed, the composition of the assets, and whether any assets need to be reduced, eliminated, or replaced.

A. Asset management.

B. Financing.

C. Investment.

D. Accounting.

ANSWER: C

10.______________ is not normally a responsibility of the controller of the modern corporation.

A. Budgets and forecasts.

B. Asset management.

C. Financial reporting to the IRS.

D. Cost accounting.

ANSWER: B

12.All constituencies with a stake in the fortunes of the company are known as ___________.

A. Shareholders.

B. Stakeholders.

C. Creditors.

D. Customers.

ANSWER: B

13.Which of the following statements is not correct regarding earnings per share (EPS) maximization as the primary goal of the firm?

A.EPS maximization ignores the firm's risk level.

B.EPS maximization does not specify the timing or duration of expected EPS.

C.EPS maximization naturally requires all earnings to be retained.

D.EPS maximization is concerned with maximizing net income.

ANSWER: D

14.___________ is concerned with the maximization of a firm's stock price.

A. Shareholder wealth maximization.

B. Profit maximization.

C. Stakeholder welfare maximization.

D. EPS maximization.

ANSWER: A

15.The weighted average of possible returns, with the weights being the probabilities of occurrence is referred to as ___________.

A. A probability distribution.

B. The expected return.

C. The standard deviation.

D. Coefficient of variation.

ANSWER: B

16.___________ on capital gain and current income may influence form of capital.

A. Legal stipulation.

B. Rate of tax.

C. Capital market condition.

D. Cost of floating.

17.________________ is one that maximizes value of business, minimizes overall cost of capital, that is flexible, simple and futuristic, that ensures adequate control on affairs of business by the owners and so on.

A. Minimal capital structure.

B. Moderate capital structure.

C. Optimal capital structure.

D. Deficit capital structure.

ANSWER: C

18.___________________ refers to make-up of a firm's capitalization.

A. Capital structure.

B. Capital budgeting.

C. Equity shares.

D. Dividend policy.

ANSWER: A

19.____________ of different sources of capital influences capital structure.

A. Restrictive covenants.

B. Tax advantage.

C. Cost of capital.

D. Trading on equity.

ANSWER: c

20.Rate of tax on capital gain and current income may influence form of _________.

A. Equity.

B. Preference.

C. Debt.

D. Capital.

ANSWER: D

21.In finance, "working capital" means the same thing as ___________.

A. Total assets.

B. Fixed assets.

C. Current assets.

D. Current assets minus current liabilities.

ANSWER: C

22.In deciding the appropriate level of current assets for the firm, management is confronted with

______________.

A. A trade-off between profitability and risk.

B. A trade-off between liquidity and marketability.

C. Atrade-off between equity and debt.

D. Trade-off between current assets and profitability.

ANSWER: A

23.____________ varies inversely with profitability.

A. Liquidity.

B. Risk.

C. Accounts.

D. Trade.

ANSWER: A

24.Permanent working capital ____________.

A. Varies with seasonal needs.

B. Includes fixed assets.

C. Is the amount of current assets required to meet a firm's long-term minimum needs.

D. Includes accounts payable.

ANSWER: C

25.Net working capital refers to ____________.

A. total assets minus fixed assets.

B. current assets minus current liabilities.

C. current assets minus inventories.

D. current assets.

ANSWER: B

26.Earlier a debt equity norm of ________ was generally insisted on by the controller of capital issues.

A. 1:1.

B. 1:2.

C. 2:1.

D. 2:2.

ANSWER: C

27.The symptom of large inventory accumulation in anticipation of price rise in future will be indicated by _________.

A. Asset turnover ratio.

B. Working Capital turnover ratio.

C. Inventory turnover ratio.

D. All of the above.

ANSWER: C

28.The project can be selected if its profitability index is more than _______.

A. 1%.

B. 3%.

C. 5%.

D. 10%.

ANSWER: A

29.Initial outlay 50,000, life of the asset 5 yrs, estimated annual cash flow 12,500, IRR = ______________.

A.5%

B.6%

C.8%

D.10%

ANSWER: C

30.A project costs Rs, 1,00,000 annual cash flow of Rs. 20,000 for 8 years. Its payback period is

_______________.

A.1 year.

B.2 years.

C.3 years.

D.5 years.

ANSWER: D