Paper Name: Corporate Finance

Semester: IIIrd

<u>Question Bank</u>

Q1. Discuss the main decisions which are taken in Financial Management.

Q2. Explain the relevance of time value of money in financial decision making.

Q3. "While evaluating projects with conventional cash flows, both NPV and IRR methods give identical results." Elucidate the statement.

Q4. A particular project has 4 year life with yearly projected net profit of ₹10,000 after charging yearly depreciation of ₹8000 in order to write off capital cost of ₹32,000. Out of the capital cost, ₹20,000 is payable immediately (year 0) and balance in next year (which will be needed for evaluation). Stock amounting to ₹6000 (to be invested in year 0) will be required throughout the project and for debtors, a further sum of ₹8000 will have to be invested in year 1. The working capital will be recouped in year 5. It is expected that the machinery will fetch a residual value of ₹2000 at the end of 4th year. Income tax is payable at 40% and the depreciation is charged on writing down value of 25% per annum.

Income tax is payable next year. The residual value of the machine ₹2000 also bears tax @40%. Although the profit is for 4 years, for computation of tax and realization of working capital, the computation will be required upto 5 years. Cost of capital for the company is 10%. Advise the firm.

Q5. A company has to consider the following project:

Cost ₹10,000

Cash Inflows:

Year	₹
1	1000
2	1000
3	2000
4	10,000

Compute the IRR and comment on the project if the opportunity cost is 14%.

Q6. Profit Maximisation is a better criterion than wealth maximization. Do you agree? Explain.

Q7. How the financial decision making involve risk return trade off?

Q8. A company is considering a proposal for production of a new product. The company expects to sell 100,000 units of the new product each year at a selling price of ₹ 5 per unit. Regardless of the level of production, the company will incur cash cost of ₹ 50,000 per year if project is undertaken. The machine for making of the product will cost ₹5,00,000 and can be sold for ₹60,000 after the end of its life of 5 years. Additional working capital required will be ₹50,000. Overhead cost allocated to the new product will be ₹24,000 per year. Tax rate is 30% and cost of capital for the company is 15%. The company charges depreciation at 25% of the written down value. Should the company buy new machine?

Q9. XYZ LTD. Is considering two additional mutually exclusive projects. The after-tax cash flows associated with these projects are as follows:

Year	PROJECT A(₹)	PROJECT B(₹)
0	-100,000	-100,000
1	32,000	0
2	32000	0
3	32000	0
4	32000	0
5	32000	200,000

The required rate of return on these projects is 11%.

a) What is each project's NPV?
b) What is each project's IRR?
c) What has caused the ranking conflict?
d) Which project should be accepted? Why?

Q10. “Trading on equity is resorted to with a view to decrease earnings per equity share.”Comment.

Q11. Discuss the consequences of lengthening and shortening of credit period by a firm.

Q12. Write short notes on:

a) Motives for holding cash
b) Factors affecting dividend policy of a firm
c) Stock out

Q13. What is EBIT-EPS analysis? How is it different from leverage analysis?

Q14. Discuss the different approaches of financing of working capital requirement.

Q15. What are implicit costs and how are they relevant in calculating weighted average cost of capital?

Q16. Why must the finance manager keep in mind the degree of financial leverage in evaluating various financing plans?

Q17. What are the cost and benefits associated with change in credit policy?

Q18. Liquidity and profitability are competing goals for finance manager. Comment.

Q19. Explain the Net Operating Income Approach to Capital Structure.

Q20.Discuss the Miller-Orr Model for determining the cash balance for the firm.