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CO FOUNDER

- Chartered Accountant by profession & educator by passion
- Teaching Financial Accounting , Financial Management & Strategic Management to CA Students For 12 Years.
- Practicing Chartered Accountant For Past 13 years in The Field of Audit , Direct & Indirect Taxes & Management Consultancy
- Elected as Convenor of The Jalna CA CPE Chapter of WIRC of ICAI For 2 consecutive years 20-21 & 21-22.
- He Has Successfully Completed & Qualified Following Certificate Course Conducted By ICAI

1. Forensic Accounting & Fraud Detection
2.Concurrent Audit of Banks
3. Goods & Service Tax (GST)
4. Public Finance & Accounting
5. Drafting & Pleading Before Authorities
6. Wealth management & Financial Planning
7. Artificial Intelligence

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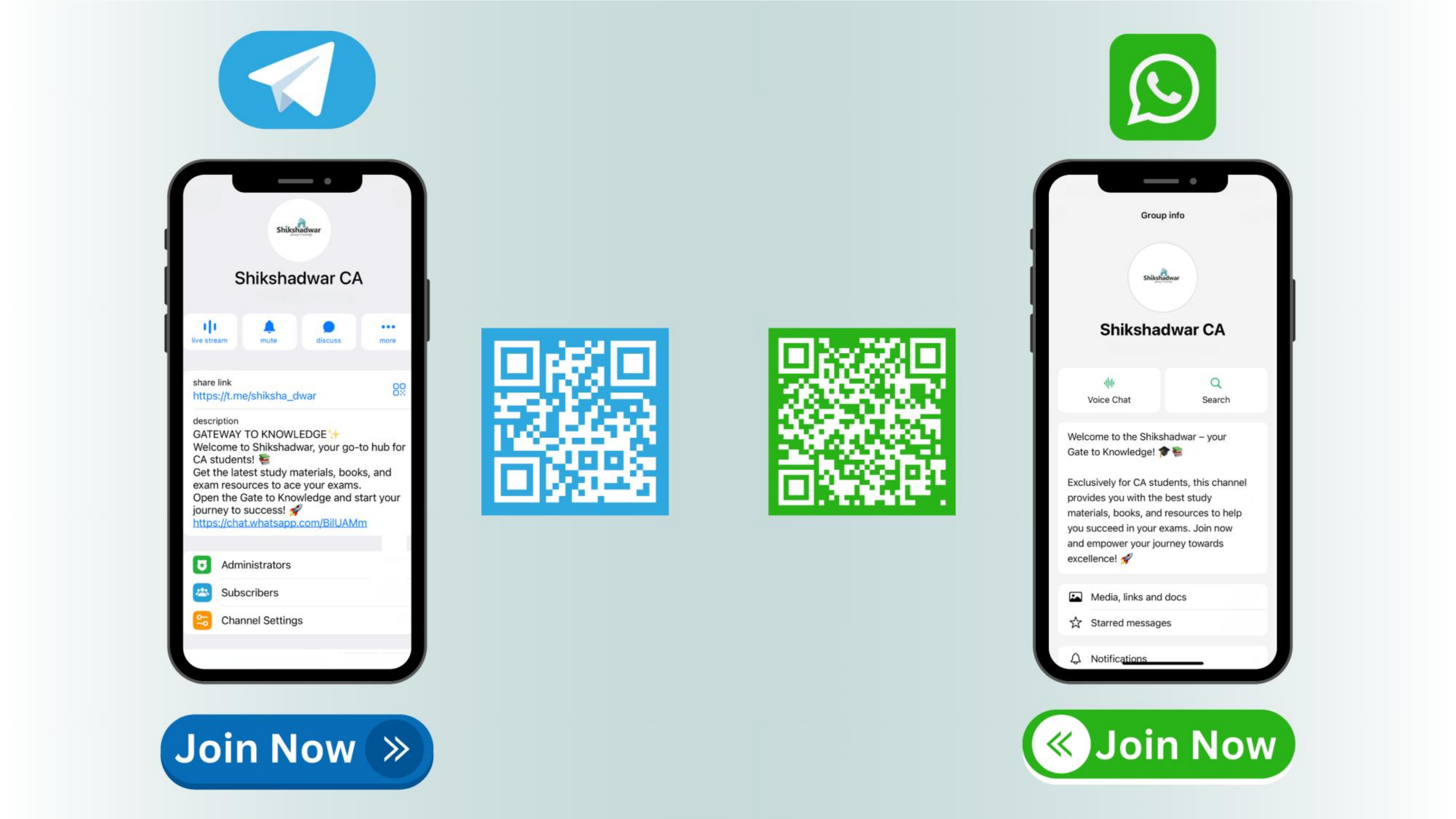

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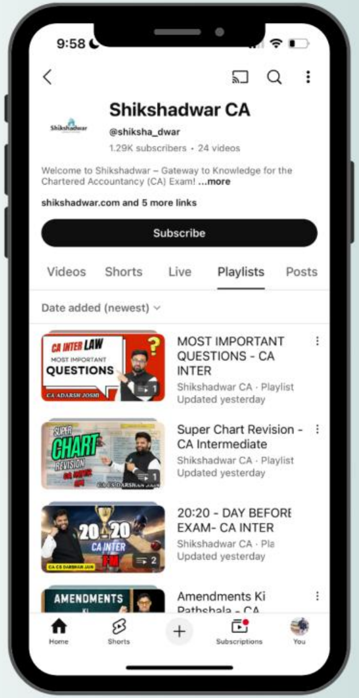

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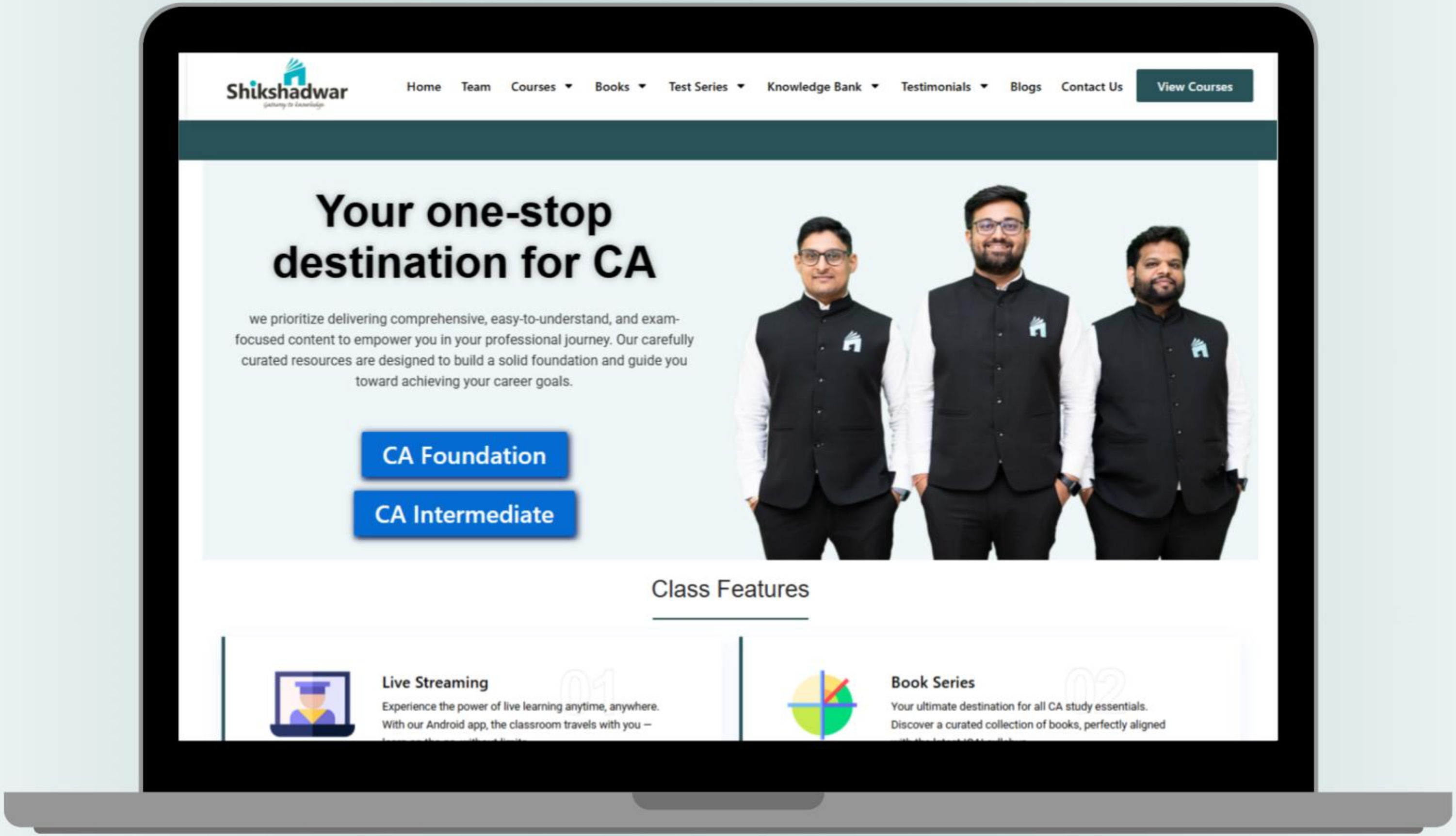

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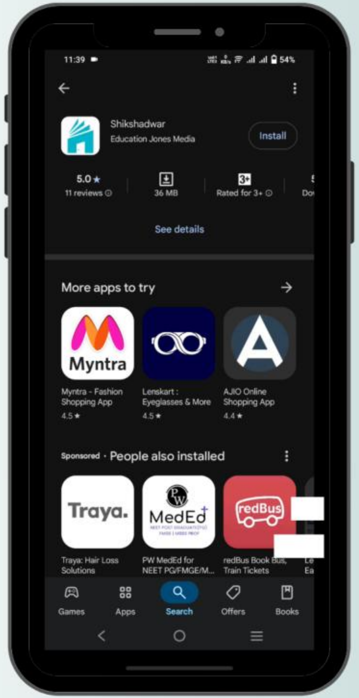

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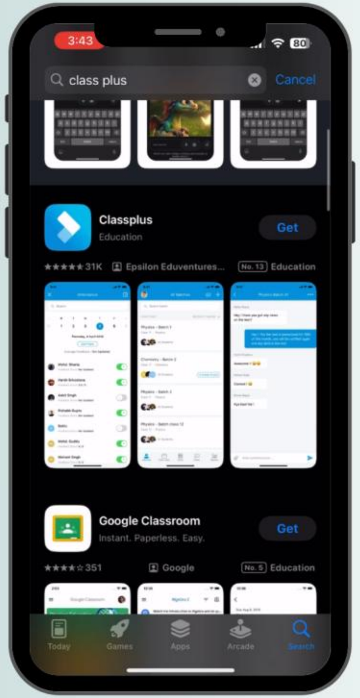

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20 -20 Series

CA INTERMEDIATE MAY 25

Marathons Schedule With Links

DATE	TIME	EDUCATOR	SUBJECT	TOPICS	YOUTUBE LINK
17/4/2025	8.00 AM	CA ADARSH JOSHI	LAW	RRR	WATCH NOW
18/4/2025	12.00 NOON	CA TUSHAR TAPARIA	GST	RRR	WATCH NOW
19/4/2025	8.00 AM	CA CS DARSHAN JAIN	FM	RRR	WATCH NOW
20/4/2025	8.00 AM	CA ADARSH JOSHI	LAW	ONE SHOT MCQ MARATHON	WATCH NOW
21/4/2025	2.00 PM	CA TUSHAR TAPARIA	GST	GST AMENDMENTS & ITS IMPORTANT QUESTIONS	WATCH NOW
23/4/2025	8.00 AM	CA CS DARSHAN JAIN	FM	ONE SHOT MCQ MARATHON	WATCH NOW

DATE	TIME	EDUCATOR	SUBJECT	TOPICS	YOUTUBE LINK
24/4/2025	2.00 PM	CA TUSHAR TAPARIA	DT	DT AMENDMENTS & ITS IMPORTANT QUESTIONS	WATCH NOW
27/4/2025	8.00 AM	CA CS DARSHAN JAIN	SM	ONE SHOT MCQ MARATHON	WATCH NOW
4/5/2025	8.00 AM	CA ADARSH JOSHI	SM	MOST IMPORTANT QUESTIONS	WATCH NOW
6/5/2025	3.00 PM	CA TUSHAR TAPARIA	TAXATION	20-20	WATCH NOW
12/5/2025	8.00 AM	CA CS DARSHAN JAIN	FM	20-20	WATCH NOW
13/5/2025	8.00 AM	CA CS DARSHAN JAIN	SM	SUPER CHART REVISION	WATCH NOW

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RESULT ORIENTED RAPID REVISION
CA INTER
FM
CA CS DARSHAN JAIN

CA INTER- FM

ONE SHOT

MCQ'S

MARATHON

CA CS DARSHAN JAIN

TOPICS TO BE COVERED

1. MEANING , SCOPE & OBJECTIVES OF FM
2. LEVERAGE ANALYSIS
3. COST OF CAPITAL
4. CAPITAL STRUCTURE
5. CAPITAL BUDGETING
6. WORKING CAPITAL MANAGEMENT
7. DIVIDEND DECISIONS
8. RATIO ANALYSIS

MEANING , SCOPE & OBJECTIVES OF FM

MCQ 1

Focus of financial management is mainly concerned with the decision related to.

a) Financing
b) Investing
c) Dividend
d) All of above

MCQ 2

The shareholder value maximization model holds that the primary goal of the firm is to maximize its.

a) Accounting profit
b) Liquidity
c) Market value
d) Working capital

MCQ 3

Management of all matters related to an organization's finances is called.

a) Cash inflows and outflows
b) Allocation of resources
c) Financial management
d) Finance

MCQ 4

The main objective of financial management is to.

a) Secure profitability
b) Maximize shareholder wealth
c) Enhancing the cost of debt
d) None of above

MCQ 5

Decision about mergers, takeovers, expansion, liquidiation were covered in financial management under.................... phase of Financial Management.

a) Traditional
b) Transitional
c) Modern
d) None

MCQ 6

"Shareholders Wealth" in a firm is reflected by.

a) the number of people employed in the firm
b) the book value of the firm's assets less the book value of its liabilities
c) the amount of salary paid to its employees
d) the market price per share of the firm

MCQ 7

Wealth maximization approach is based on the concept of.

a) Cost benefit analysis
b) Cash flow approach
c) Time value of money
d) All of the above

MCQ 8

.... is the main goal of financial management.

a) profit maximization
b) fund transfer
c) maximum returns
d) wealth maximization

MCQ 9

Which of the following is the disadvantage of having shareholders wealth maximization goals.

a) Emphasizes the short-term gains
b) Ignores the timing of returns
c) Requires immediate resources
d) Offers no clear relationship between financial decisions and share price

MCQ 10

Which of following activities will not lead to increase in shareholders wealth?

a) Investing in projects with high cash flows
b) Raising funds through sources which have low cost
c) Regular growth in dividends
d) Maintaining high levels of cash at bank

MCQ 11

which of the following activities are performed by CFOs now in addition to those performed by past CFOs.

a) Budgeting
b) Forecasting
c) Risk Management
d) Treasury management

MCQ 12

Which of the following is the common connection in financing, investing decisions.

a) Investment instruments type should be same as financing instrument type
b) Investments will definitely grow in line with financing
c) Debt Equity ratio should be same for investments and financing actions
d) Risk Return Trade off

MCQ 13

Which of the following need not be followed by the finance manager for measuring and maximizing shareholders' wealth.

a) Accounting profit analysis
b) Cash Flow approach
c) Cost benefit analysis
d) Application of time value of money

MCQ 14

A principal agent relationship between .... and .... which is known as Agency Problem.

a) Managers & Owner
b) Executive & Proprietor
c) both (a) & (b)
d) Managers & secretary

MCQ 15

Financial Management is study-

1) Of the process of procuring and judicious use of financial resource
2) Undertaken to maximize the value of the firm/owners.

a) (1) only
b) (2) only
c) Both (1) and (2)
d) Neither (1) nor (2)

MCQ 16

Long run objective of financial management is to …………..

a) Maximize earnings per share.
b) Maximize the value of the firm's common stock.
c) Maximize return on investment.
d) Maximize market share.

MCQ 17

Procurement of funds inter alia include........

(a) Identification of sources of finance
(b) Determination of finance mix
(c) Raising of funds
(d) Division of profits between dividends and retention of profits for internal funds generation

a) (a) & (b)
b) (a), (c) & (d)
c) (b) & (c)
d) (c), (a), (d) & (b)

MCQ 18

The market price of a share of common stock is determined by:

a) The board of directors of the firm.
b) The stock exchange on which the stock is listed.
c) The president of the company.
d) Individuals buying and selling the stock.

MCQ 19

Which of the following is/are the basic aspects of financial management?

1) Procurement of funds.
2) Appointment of capable financial personnel.
3) Effective use of funds to achieve business objectives.
4) Increase the national resources.

a) (1) & (3)
b) (2) & (4)
c) (1) & (4)
d) (2) & (3)

MCQ 20

The focal point of financial management in a firm is.............

a) The number and types of products or services provided by the firm.
b) The minimization of the amount of taxes paid by the firm.
c) The creation of value for shareholders.
d) The profits earned by the firm.

MCQ 21

A business organization can obtain funds from –

a) Issue of preference or equity share capital
b) Issue of debentures
c) Loan from banks and financial institution
d) All of the above

MCQ 22

The funds raised by the issue of ……. are the best from the risk point of view for the company.

a) equity shares
b) debentures
c) both (A) & (B)
d) none of the above

MCQ 23

Investment decisions are concerned with –

a) Efficient allocation of funds to specific assets
b) Determining the proper amount of funds to be employed in the firm.
c) Determining the composition of liabilities
d) Short-run projects

MCQ 24

……… ensures that the firm utilizes its available resources most efficiently under conditions of competitive markets.

a) Wealth Maximization
b) Profit Maximization
c) Value Maximization
d) Relation Maximization

MCQ 25

For which of the following reason(s) profit maximization concept is criticized_

1) It is vague conceptually.
2) It ignores the timing of returns.
3) It ignores the risk factor
4) Its emphasis is generally on short-run projects,

Select the correct answer from the options given below.

a) 1
b) 1 & 2
c) 1, 2 & 3
d) 1, 2, 3 & 4

MCQ 26

_______consistent with the object of maximizing the owner's economic welfare.

a) Profit Maximization
b) Wealth Maximization
c) Relation Maximization
d) All of the above

MCQ 27

Financial Management is concerned with –

a) Profit Maximization
b) Both (A) & (C)
c) Wealth Maximization
d) Both (A) & (C) plus Relation Maximization

MCQ 28

Assertion (A): Profit maximization as an objective does not take into account the time pattern of returns.
Reason (R): The finance managers will accept highly risky proposals if they give high profits by applying the profit maximization concept.

Select the correct answer from the options given below.

a) Both A and R are true and R is the correct explanation of A.
b) Both A and R are true but R is not a correct explanation of A.
c) A is true but R is false
d) A is false but R is true

MCQ 29

Profit maximization-

a) Cannot be the sole objective of a company
b) Is at best a limited objective.
c) Has to be attempted with a realization of risks involved
d) All of the above

MCQ 30

Under inflationary conditions, the value of money expressed in terms of its purchasing power over goods and services.

a) Incline
b) Declines
c) Increases
d) Remains constant

MCQ 31

_____ is a condition where a company cannot meet or has difficulty paying off, its financial obligations to its creditors, typically due to high fixed costs, illiquid assets, or revenues sensitive to economic downturns.

a) Financial risk
b) Financial uncertainty
c) Financial certainty
d) Financial distress

MCQ 32

_____means the organization can no longer meet its financial obligations with its lender or lenders as debts become due.

a) Financial certainty
b) Financial insolvency
c) Financial risk
d) Identified risk

MCQ 33

A permanent……… may lead an organization to the chaotic state of ____.

a) Financial insolvency; financial certainty
b) Financial distress; Identified risk
c) Identified risk; financial insolvency
d) Financial distress; financial insolvency

MCQ 34

Financial Management can be judged by the study of the nature of___.

a) Corporate, social & benefit decisions.
b) Accounting, financing & dividend decisions.
c) Personnel, human cost & economic decisions
d) Investment, financing & dividend decisions.

MCQ 35

Which of the following is/are a major aspect of the investment decision-making process?

a) Capital budgeting
b) Formulation of Functional Strategy
c) Strategic implementation
d) All of the above

ANSWER KEY

SR.NO	ANSWER	SR.NO	ANSWER	SR.NO	ANSWER
1	D	16	B	31	D
2	C	17	D	32	B
3	C	18	D	33	D
4	B	19	A	34	D
5	A	20	C	35	A
6	D	21	D		
7	D	22	A		
8	D	23	A		
9	D	24	B		
10	D	25	D		
11	C	26	B		
12	D	27	B		
13	A	28	B		
14	C	29	D		
15	C	30	B		

LEVERAGE ANALYSIS

MCQ 1

If margin of safety is 0.25 , FL is 1.50 and there is 8% increase in output , Then (EPS) will ?

A. decrease by 20%
B. increase by 32%
C. increase by 48%
D. decrease by 32%

MCQ 2

Consider the following information for Strong Ltd.

EBIT	1,120
EBT	320
Fixed Cost	700

Calculate the percentage of change in earnings per share, if sales increased by 5 percent.

A. 25.8750%
B. 20.0000%
C. 24.3750%
D. 28.4375%

MCQ 3

A firm has sales of Rs. 75,00,000 variable cost of Rs. 42,00,000 and fixed cost of Rs. 6,00,000 Debt of Rs. 45,00,000 at 9% and equity of Rs. 55,00,000

At what level Of Sales the EBT of the firm will be equal to zero?

A. 2284091
B. 2350000
C. 2310890
D. 2290098

MCQ 4

If margin of safety is 0.25 , Sales is 10000000 , PV Ratio is 50% , EBIT - ?

A. 2500000
B. 1000000
C. 1250000
D. 3750000

MCQ 5

If degree of combined leverage is 3 and margin of safety is 0.50, then degree of financial leverage is:

(a) 6.00

(b) 3.00

(c) 0.50

(d) 1.50

MCQ 6

When sales is at breakeven point, the degree of operating leverage will be:

(a) Zero

(b) Infinite

(c) One

(d) None of above

MCQ 7

Firm with high operating leverage will have:

(a) Higher breakeven point

(b) Lower business risk

(c) Higher margin of safety

(d) All of above

MCQ 8

When EBIT is much higher than Financial break-even point, then degree of financial leverage will be slightly:

(a) Less than 1

(b) Equals to 1

(c) More than 1

(d) Equals to 0

MCQ 9

If degree of financial leverage is 3 and there is 15% increase in Earning per share (EPS), then EBIT will be:

(a) Decrease by 15%

(b) Increase by 45%

(c) Decrease by 45%

(d) Increase by 5%

MCQ 10

If Margin of Safety is 0.25 and there is 8% increase in output, then EBIT will be:

(a) Decrease by 2%

(b) Increase by 32%

(c) Increase by 2%

(d) Decrease by 32%

MCQ 11

Financial leverage may be defined as:

(a) Use of funds with a product cost in order to increase earnings per share.

(b) Use of funds with a contribution cost in order to increase earnings before interest and taxes.

(c) Use of funds with a fixed cost in order to increase earnings per share.

(d) Use of funds with a fixed cost in order to increase earnings before interest and taxes.

MCQ 12

Operating leverage is a function of which of the following factors?

(a) Amount of variable cost.

(b) Variable contribution margin.

(c) Volume of purchases.

(d) Amount of semi-variable cost.

MCQ 13

From the following information, calculate combined leverage:

Sales	₹ 20,00,000
Variable Cost	40%
Fixed Cost	₹ 10,00,000
Borrowings	₹ 10,00,000 @ 8% p.a.

(a) 10 times

(b) 6 times

(c) 1.667 times

(d) 0.10 times

MCQ 14

Degree of combined leverage is the fraction of:

(a) Percentage change in EBIT on Percentage change in Sales.

(b) Percentage change in EPS on Percentage change in Sales.

(c) Percentage change in Sales on Percentage change in EPS.

(d) Percentage change in EPS on Percentage change in EBIT.

MCQ 15

Which of the following indicates business risk?

(a) Operating leverage

(b) Financial leverage

(c) Combined leverage

(d) Total leverage

MCQ 16

Which of The Following is Correct??

A. CL = OL+FL
B. FL = OL*CL
C. CL = OL/FL
D. FL = CL/OL

MCQ 17

Financial Leverage is calculated as:

(a) EBIT ÷ Contribution

(b) EBIT ÷ PBT

(c) EBIT ÷ Sales

(d) EBIT ÷ Variables Cost

MCQ 18

Interest = 9000 , FL = 2.5 Times.
Find EBIT ?

A. 9000
B. 22500
C. 30000
D. 15000

MCQ 19

MOS = 0.25 , EBIT = 100000

Contribution = ?

A. 25000
B. 300000
C. 75000
D. 400000

MCQ 20

Given

Operating fixed costs	₹ 20,000
Sales	₹ 1,00,000
P/ V ratio	40%

The operating leverage is:

(a) 2.00

(b) 2.50

(c) 2.67

(d) 2.47

MCQ 21

There is no operating leverage if there is no

A. Profit
B. Sales
C. Fixed cost
D. EPS

MCQ 22

In the context of operating leverage break-even analysis, if the selling price per unit rises and all other variables remain constant, the operating break-even point in units will:

A. **Fall**
B. **Rise**
C. **Stay the same**
D. **Still be indeterminate until interest and preferred dividends are known**

MCQ 23

High operating leverage indicates

A. Highly favorable situation as it consists of low fixed costs.
B. The Highly risky situation as it consists of large interest costs.
C. Highly favorable situation as it consists of higher EPS.
D. The Highly risky situation as it consists of large fixed costs.

MCQ 24

Operating leverage is directly to business risk

A. Proportional
B. Not proportional
C. Unrelated
D. Not related

MCQ 25

Where a company has a large number of fixed interest charges, the financial leverage will be

A. High
B. Low
C. Negative
D. Unreliable

ANSWER KEY			
SR.NO	ANSWER	SR.NO	ANSWER
1	C	13	A
2	D	14	B
3	A	15	A
4	C	16	D
5	D	17	B
6	B	18	D
7	A	19	D
8	C	20	A
9	D	21	C
10	B	22	A
11	C	23	D
12	B	24	A
		25	A

COST OF CAPITAL

MCQ 1

A company has a financial structure where equity is 70% of it's debt plus equity. Gross Rate of Interest on Loan is 5% , corporate tax is paid at 30%. Rate of return on Government Securities = 5%

Market return = 10% ,

Market Risk Premium = 5%

Beta = 2

What is the company's Cost of Equity ?

A. 7.55%

B. 8.70%

C. 15.00%

D. 11.55%

MCQ 2

What is the overall (weighted average) cost of capital when the firm has Rs. 20 crore in long term debt, 4 crore in preferred stock, and Rs. 16 crore in equity share & Rs. 10 Crores in Retained Earnings. The before tax cost for debt, preferred stock, and equity capital are 8%, 9%, and 15%, respectively. Assume a 50% tax rate ?

A. 10.12%
B. 6.90%
C. 7.30%
D. 8.90%

MCQ 3

X Ltd., issued 15% debentures. F.V. Rs.500. the cost of issue works out to 3%. The debentures are repayable after 7 years. The tax rate is 60%.if the difference between the par value & the net amount realized can be amortized evenly over the life of debentures to the firm for the tax purpose. What is the cost of the debentures?

A. 6.27%
B. 6.53%
C. 6.00%
D. 6.86%

MCQ 4

Y Ltd., retains Rs.750000 out of its current earnings. The expected rate of return to the shareholders, if they had invested the funds elsewhere is 10%. The brokerage is 3% and the shareholders come in 30% tax bracket. Calculate the cost of retained earnings.

A. 10.00%
B. 4.90%
C. 7.00%
D. 6.79%

MCQ 5

Alpha Ltd. Has issue 5,00,000 Rs.1 ordinary shares whose current Cum-dividend market price is Rs.1.50 per share. The company has just paid a dividend of 27 paise per share, and dividends are expected to continue at this level for some time. If the company has no debt capital, what is the weighted average cost of capital?

a) 21.95%
b) 18.00%
c) 27.00%
d) 15.00%

MCQ 6

Given: risk-free rate of return = 5 %; market return = 10%; cost of equity = 16%; value of beta (β) is:

a) 1.9
b) 1.8
c) 2.0
d) 2.2

MCQ 7

________may be defined as the Average Cost of Availing Finance From Long Term Sources Based on the Proportion of Each Component in capital Structure.

a) Marginal cost of capital
b) Weighted Average cost of capital
c) Simple Average cost of capital
d) Liquid cost of capital

MCQ 8

Which of the following cost of capital Does Not require Adjustment For Corporate Tax ?

a) Cost of Bank Loan
b) Cost of Irredeemable Debentures
c) Cost of Redeemable Debentures
d) Cost of Retained Earnings

MCQ 9

A company is considering raising of funds of about Rs.100 lakhs by way of 13% non-convertible debentures. The debentures would have to be issued at a discount of 2.5% and would involve cost of issue of Rs.1 lakh. Find Kd Assuming a tax rate of 35%.

a) 13.00 %
b) 8.45 %
c) 10.00%
d) 8.76%

MCQ 10

The Companies Last year EPS is 5 , Dividend payout ratio is 60% , & Return on Equity is 10%. The Market price of Share is 20.80. Find Ke??

a) 14.42%
b) 19.00%
c) 15.00 %
d) 16.00%

MCQ 11

X Ltd's, next expected dividend per share is Rs.2.50., its growth rate is 6%, and the stock currently sells for Rs.25 per share. Additional equity can be sold to public to Net Rs.21.00 per share. Calculate Cost of New Equity

a) 17.90%
b) 16.00%
c) 16.60%
d) 11.90%

MCQ 12

A company has a financial structure where equity is 70% of its total debt plus equity. Its Cost of Equity is 10% and gross loan interest Rate is 5%. Corporation tax is paid at 40%. What is the company's weighted average cost of capital (WACC)?

a) 7.55%
b) 7.90%
c) 8.70%
d) 8.05%

MCQ 13

Mine's Ltd's ore reserves are depleted. Hence the expected future rate of growth in dividends is negative 5%. Dividend today is Rs.10 per share and current market price is Rs.50.

a) 26.00%
b) 10.00%
c) 14.00 %
d) 20.00 %

MCQ 14

What is the overall (weighted average) cost of capital when the firm has Rs. 20 crores is long-term debt, Rs. 4 crores in preferred stock, and Rs. 16 crores in equity shares? The before-tax cost of debt, preferred stock, and equity capital are 8%, 9% and 15% respectively. Assume a 40% tax rate.

a) 7.60%
b) 6.90%
c) 9.30%
d) 8.90%

MCQ 15

Ke = 32.50% , growth Rate = 5% , The Company has paid last Dividend of 12.76. What will be price of Share after 6 years.

a) 60.47
b) 65.28
c) 72.50
d) 68.00

MCQ 16

If we deduct 'risk-free return' from 'market return' and multiply it with 'beta factor' and again add 'risk- free return', the resultant figure will be –

(a) NI
(b) Risk premium
(c) Cost of equity
(d) WACC of the firm

MCQ 17

How you will calculate expected dividend i.e. dividend at the end of year one?

(a) $D_1 = [D_o(1+g)]$

(b) $D_1 = [D_o(1-t)]$

(c) $D_1 = [D_o \times (1-g)]$

(d) $D = [D_o+(1-g)](1-t)$

MCQ 18

Which of the following figure is irrelevant while calculating the cost of redeemable preference shares?

(a) Flotation cost
(b) Discount
(c) EPS
(d) Net proceeds

MCQ 19

Debt as a percentage of the total capital of Kinara Ltd. is 20%. Its cost of equity is 16% and the pre- tax cost of debt is 12%. The tax rate is 50%. What is the overall cost of capital of Kinara Ltd.?

(a) 16%
(b) 14%
(c) 15%
(d) 16.6%

MCQ 20

Baba Ltd. has a cost of equity of 12%, a pre-tax cost of debt of 7%, and a tax rate of 35%. What is the firm's weighted average cost of capital if the debt- equity ratio is 0.60?

(a) 9.21%
(b) 10.01%
(c) 10.13%

(d) 11.11%

ANSWER KEY

SR.NO	ANSWER	SR.NO	ANSWER
1	C	11	A
2	A	12	B
3	A	13	C
4	D	14	C
5	A	15	B
6	D	16	C
7	B	17	A
8	D	18	C
9	D	19	B
10	B	20	A

CAPITAL STRUCTURE

MCQ 1

Blue Ltd. an all equity financed company is considering the repurchase of Rs 275 lakhs equity shares and to replace it with 15% debentures of the same amount. Current market value of the company is Rs. 1,750 lakhs with its cost of capital of 20%. The company's Earnings before Interest and Taxes (EBIT) are expected to remain constant in future years. The company also has a policy of distributing its entire earnings as dividend. Assuming the corporate tax rate as 40%, you are required to calculate Cost of Equity.

A) 20.62 %
B) 20.52 %
C) 20.00 %
D) 18.75 %

MCQ 2

Particular	A Ltd.	B Ltd.
Expected Net Operating Income	18,00,000	18,00,000
12% debt	54,00,000	-
Equity capitalization Rate.		18

The Above Data is data related to two companies belonging to the same risk class:

Find Ke of A Ltd As Per MM Approach Assuming 50% Tax

A. 22.50%
B. 20.00%
C. 19.09%
D. 25.04%

MCQ 3

Indra Ltd. has an EBIT of RS. 1,00,000. The company makes use of both the debt and equity capital. The firm has 10% debentures of RS. 5,00,000 and the firm's equity capitalization rate is 15%. You are required to compute Value Of Equity.

A. 666667
B. 833333
C. 866667
D. 333333

MCQ 4

Shahji Steel Limited requires Rs. 25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of Rs 5,00,000. It Has Decided to Finance its Requirement Through Rs. 15,00,000 of Debt and the balance, by issuing equity shares. The company's share is currently selling at Rs 150 but is expected to decline to Rs 125 in case the funds are borrowed in excess of Rs 10,00,000.
The funds can be borrowed at the rate of 10 per cent up to Rs 2,50,000, at 15 percent over Rs 2,50,000 and upto RS. 10,00,000 and at 20 percent over Rs 10,00,000. The tax rate applicable to the company is 25 percent. Find EPS

A. 15.83
B. 18.13
C. 16.41
D. 24.61

MCQ 5

Indifference Point Refers to

A. **EBIT At Which EPS Under 2 Financial Plans is Zero**
B. **EBIT At Which EPS is Maximum**
C. **EBIT At Which EPS Under 2 Financial Plans is Same**
D. **All of The Above**

MCQ 6

Sun Ltd. is considering two financing plans.

Details of which are as under:

(i) Fund's requirement – ₹ 100 Lakhs

(ii) Financial Plan

Plan	Equity	Debt
I	100%	-
II	25%	75%

(iii) Cost of debt – 12% p.a.

(iv) Tax Rate – 30%

(v) Equity Share ₹ 10 each, issued at a premium of ₹ 15 per share

(vi) Expected Earnings before Interest and Taxes (EBIT) ₹ 40 Lakhs

Find FBEP of Plan 2

A.0
B.900000
C.630000
D.None of the Above

MCQ 7

RM Steels Limited require Rs 10,00,000 for construction of a new plant. The company Plans To issue 50,000 ordinary shares at Rs 10 per share and 5000 preference shares at Rs 100 per share bearing a 8 percent rate of dividend. If RM Steels Limited's earnings before interest and taxes are Rs. 20,000 & tax Rate is 50%. Compute EPS

A. 0.20
B. 0
C. (0.60)
D. (1.00)

MCQ 8

Zordon Ltd. has net operating income of Rs 5,00,000 and total capitalization of Rs 50,00,000 during the current year. The company is contemplating to introduce debt financing of 2500000 in capital structure at the rate of 7.50% Ke Being 13.50% . Find WACC As Per traditional Approach.

A. 13.50%
B. 10.00 %
C. 10.50 %
D. 9.09 %

MCQ 9

Particular	A Ltd.	B Ltd.
Expected Net Operating Income	18,00,000	18,00,000
12% debt	54,00,000	-
Equity capitalization Rate.		18

The Above Data is data related to two companies belonging to the same risk class:

Find WACC B Ltd As Per MM Approach Assuming 25% Tax

A. 13.23%
B. 19.09%
C. 18.00%
D. 25.04%

MCQ 10

If EPS is 10 & Ke is 12.50 % . Find P/E Ratio & MPS

A. 10 & 100

B. 8 & 80

C. 10 & 80

D. 8 & 100

MCQ 11

Aeron We Ltd. is considering two alternative financing plans as follows:

Particulars	Plan -A (₹)	Plan -B (₹)
Equity shares of ₹ 100 each	90,00,000	90,00,000
Preference Shares of ₹ 100 each	-	20,00,000
9% Debenture	20,00,000	-
	1,10,00,000	1,10,00,000

The indifference point between the plans is ₹ 7,60,000. Corporate tax rate is 25%. CALCULATE the Amount of dividend on preference shares.

Determine The Amount of Preference Dividend

A. 135000 B. 65000 C. 33600 D. 47500

MCQ 12

Pecking order theory Suggests Following Order of Financing -

A. **Equity , Debt , Retained Earning**
B. **Debt , Retained Earnings , Equity**
C. **Retained Earnings , Equity , Debt**
D. **Retained Earnings , Debt , Equity**

MCQ 13

A&R Ltd. is an all equity financed company with a market value of Rs 25,000 lakh and cost of equity (k_e) 18%. The company wants to buyback equity shares wroth RS 5,000 lakh by issuing and raising 10% debentures redeemable at 10% premium after 5 years. Rate of tax may be take as 35%. Applying Modigliani- Miller (MM) (with taxes), you are required to calculate after restructuring Weighted average cost of capital (using market weights).

A. 15.00%

B. 17.81%

C. 16.95%

D. 16.82%

MCQ 14

If EBIT is Above Indifference point , Choose Following Financial Plan with

A. Lower Debt
B. No Debt
C. Higher Debt
D. Any Alternative Can Be Chosen

MCQ 15

A Limited and B Limited are identical except for capital structure. A Ltd. has 60 percent debt and 40 percent equity, whereas B Ltd. has 20 percent debt and 80 percent equity. (All percentages are in market value terms) the borrowing rate for both companies is 8 percent in a no-tax world, and capital markets are assumed to be perfect.

if the company has net operating income of RS 4,50,000 and the overall capitalization rate of the company (k_o) is 20 per cent. Calculate the implied required rate of return on equity of A Ltd.

A. 38.00%
B. 33.00%
C. 20.00%
D. 25.00%

MCQ 16

Zordon Ltd. has net operating income of Rs 5,00,000 and total capitalization of Rs 50,00,000 during the current year. The company is contemplating to introduce debt financing of 2500000 in capital structure at the rate of 7.50% Ke Being 13.50% . Find Equity capitalization rate, if MM approach is followed.

A. 13.50%
B. 10.00 %
C. 10.50 %
D. 12.50 %

MCQ 17

Amita Ltd.'s operating income (EBIT) is Rs 5,00,000. The firm's cost of debt is 10% and currently the firm employs Rs 15,00,000 of debt. The overall cost of capital of the firm is 15%. You are required to calculate Cost of Equity

A. 10.00 %
B. 11.96 %
C. 12.90 %
D. 19.09 %

MCQ 18

Sun Ltd. is considering two financing plans.

Details of which are as under:

(i) Fund's requirement – ₹ 100 Lakhs

(ii) Financial Plan

Plan	Equity	Debt
I	100%	-
II	25%	75%

(iii) Cost of debt – 12% p.a.

(iv) Tax Rate – 30%

(v) Equity Share ₹ 10 each, issued at a premium of ₹ 15 per share

(vi) Expected Earnings before Interest and Taxes (EBIT) ₹ 40 Lakhs

Find Indifference Point between Plan i & ii

A.Cant Be Ascertained
B.950000
C.450000
D.1200000

MCQ 19

Particular	A Ltd.	B Ltd.
Expected Net Operating Income	18,00,000	18,00,000
12% debt	54,00,000	-
Equity capitalization Rate.		18

The Above Data is data related to two companies belonging to the same risk class:

Find Value of Equity of A Ltd As Per MM Approach Assuming 35% Tax

A. 2300000
B. 2760000
C. 2990000
D. 2500000

MCQ 20

Formula for FBEP =

A. Interest + Pref. Dividend

B. $\dfrac{(\text{Interest + Pref. Dividend})}{(1-t)}$

C. $\dfrac{(\text{Interest})}{(1-t)}$ + Pref. Dividend

D. Interest + $\dfrac{(\text{Pref. Dividend})}{(1-t)}$

ANSWER KEY

SR.NO	ANSWER	SR.NO	ANSWER
1	B	11	A
2	D	12	D
3	D	13	D
4	D	14	C
5	C	15	A
6	B	16	D
7	C	17	D
8	C	18	D
9	C	19	C
10	B	20	D

CAPITAL BUDGETING

MCQ 1

1. *A capital budgeting technique which does not require the computation of cost of capital for decision making purposes is:*

   (a) Net Present Value method

   (b) Internal Rate of Return method

   (c) Modified Internal Rate of Return method

   (d) Payback Period method

MCQ 2

If two alternative proposals are such that the acceptance of one shall exclude the possibility of the acceptance of another then such decision making will lead to:

(a) Mutually exclusive decisions

(b) Accept reject decisions

(c) Contingent decisions

(d) None of the above

MCQ 3

In case a company considers a discounting factor higher than the cost of capital for arriving at present values, the present values of cash inflows will be:

(a) Less than those computed on the basis of cost of capital

(b) More than those computed on the basis of cost of capital

(c) Equal to those computed on the basis of the cost of capital

(d) None of the above

MCQ 4

If the cut off rate of a project is greater than IRR, we may:

(a) Accept the proposal

(b) Reject the proposal

(c) Be neutral about it

(d) Wait for the IRR to increase and match the cut off rate

MCQ 5

While evaluating capital investment proposals, time value of money is used in which of the following techniques:

(a) Payback Period method

(b) Accounting rate of return

(c) Net present value

(d) None of the above

MCQ 6

IRR would favour project proposals which have:

(a) Heavy cash inflows in the early stages of the project.

(b) Evenly distributed cash inflows throughout the project.

(c) Heavy cash inflows at the later stages of the project.

(d) None of the above.

MCQ 7

The re-investment assumption in the case of the IRR technique assumes that:

(a) Cash flows can be re-invested at the projects IRR.

(b) Cash flows can be re-invested at the weighted cost of capital.

(c) Cash flows can be re-invested at the marginal cost of capital.

(d) None of the above

MCQ 8

Multiple IRRs are obtained when:

(a) Cash flows in the early stages of the project exceed cash flows during the later stages.

(b) Cash flows reverse their signs during the project.

(c) Cash flows are uneven.

(d) None of the above.

MCQ 9

Depreciation is included as a cost in which of the following techniques:

(a) Accounting rate of return

(b) Net present value

(c) Internal rate of return

(d) None of the above

MCQ 10

Management is considering a ₹ 1,00,000 investment in a project with a 5 year life and no residual value. If the total income from the project is expected to be ₹ 60,000 and recognition is given to the effect of straight line depreciation on the investment, the average rate of return is:

(a) 12%

(b) 24%

(c) 60%

(d) 75%

MCQ 11

Assume cash outflow equals ₹1,20,000 followed by cash inflows of ₹25,000 per year for 8 years and a cost of capital of 11%. What is the Net present value?

(a) (₹38,214)

(b) ₹9,653

(c) ₹8,653

(d) ₹38,214

MCQ 12

What is the Internal rate of return for a project having cash flows of ₹40,000 per year for 10 years and a cost of ₹2,26,009?

(a) 8%

(b) 9%

(c) 10%

(d) 12%

MCQ 13

While evaluating investments, the release of working capital at the end of the project's life should be considered as:

(a) Cash inflow

(b) Cash outflow

(c) Having no effect upon the capital budgeting decision

(d) None of the above

MCQ 14

Capital rationing refers to a situation where:

(a) *Funds are restricted and the management has to choose from amongst available alternative investments.*

(b) *Funds are unlimited and the management has to decide how to allocate them to suitable projects.*

(c) *Very few feasible investment proposals are available with the management.*

(d) *None of the above.*

MCQ 15

Capital budgeting is done for:

(a) Evaluating short term investment decisions.

(b) Evaluating medium term investment decisions.

(c) Evaluating long term investment decisions.

(d) None of the above.

MCQ 16

X Ltd. manufactures electronic motors fitted in desert coolers. It has an annual turnover of 30 crore and cash expenses to generate this much of sale is Rs 25 crore. Suppose applicable tax rate is 30% and depreciation is Rs 1.50 crore p.a. Calculate CFAT

A) 3.50 Cr

B) 5.00 Cr

C) 3.95 Cr

D) None of The Above

MCQ 17

XYZ Ltd is Analyzing A Project Requiring an initial cash Outlay of 2,05,000 and is Expected to generate Cash Flows as Follows -

Year	Annual Cash Inflows (₹)
1	80,000
2	60,000
3	60,000
4	20,000

Calculate Payback Period

A) 3 years

B) 4 Years

C) 3.25 Years

D) None of The Above

MCQ 18

A company proposes to install machine involving a capital cost of ₹ 3,60,000. The life of the machine is 5 years and its salvage value at the end of the life is nil. The machine will produce the net operating income after depreciation of ₹ 68,000 per annum. The company's tax rate is 40%. Find Annual CFAT

A) 37400

B) 112800

C) 109400

D) 102400

MCQ 19

Cost of Project = 2000000

NPV = 515488

Cost of Capital = 12%

Life of Project = 3 years , Find Equivalent Annualized NPV

A) **214608**

B) **157902**

C) **167747**

D) **211500**

MCQ 20

Cost of Project = 2000000

Annual CFAT = 600000

Tax Rate = 30%

Cost of Capital (Pre Tax) = 20%

Life of Project = 8 years , Compute NPV

A) **302296**

B) **420425**

C) **614850**

D) **783400**

MCQ 21

Following data has been available for a capital project:

Annual cash inflows	**1,00,000**
Useful life	**5 years**
Salvage value	**0**
Internal rate of return	**15%**
Profitability index	**1.064**

Compute NPV

A) 19443

B) 20802

C) 25270

D) 21453

MCQ 22

Apex hospital is considering to purchase a machine for medical protectional radiography which is priced at ₹ 2,00,000. The projected life of the machine is 8 years and has an expected salvage value of ₹ 18,000 at the end of 8th year. The annual operating cost of the machine is ₹ 22,500. It is expected to generate revenues of ₹ 1,20,000 per year for eight years. Presently, the hospital is outsourcing the radiography work to its neighbor Test Center and is earning commission income of 36,000 per annum, net of taxes. The cabin Where Such machinery Needs to be installed was Rented to Dr. Shah for his OPD at a Rent of 18000 Per Annum (Before taxes). The Cabin Now Needs to be Vacated by Dr. Shah For installation of Machine. Find CFAT (Tax Rate – 50%)

A) 24125

B) 15125

C) 39075

D) 57075

MCQ 23

Project	Investment (₹)	NPV (₹)
C	40,000	20,000
D	1,00,000	35,000
E	50,000	24,000
F	60,000	18,000

Which Combination Shall Give highest NPV considering Spending Limit of 1 lakh

A) Only D
B) C & E
C) C & F
D) Only C

MCQ 24

Project	Investment (₹)	NPV (₹)
C	40,000	20,000
D	1,00,000	35,000
E	50,000	24,000
F	60,000	18,000

Compute Total NPV if Projects are Divisible considering Spending Limit of 110000

A) **51000**
B) **47500**
C) **50000**
D) **None of The Above**

MCQ 25

A company proposes to install machine involving a capital cost of ₹ 3,60,000. The life of the machine is 5 years and its salvage value at the end of the life is nil. The machine will produce the net operating income after depreciation of ₹ 68,000 per annum. The company's tax rate is 45%. Find IRR

PVAF AT 15% For 5 Years = 3.35

PVAF AT 16% For 5 Years = 3.27

A) 15%

B) 16%

C) 15.24%

D) 15.74%

MCQ 26

Bhaskar Ltd. estimated that a proposed project's 8-year net cash benefit will be ₹ 4,000 per year for years 1 to 8, with an additional terminal benefit of ₹ 8,000 at the end of the eighth year. Assuming that these cash inflows satisfy exactly the required rate of return of 8 percent, the project's initial cash outflow is closest to which of the following four possible answers?

a) ₹ 27,308
b) ₹ 25,149
c) ₹ 14,851
d) ₹ 40,000

MCQ 27

To estimate an unknown number that lies between two known numbers is knows as -

a) **Capital rationing**
b) **Capital budgeting**
c) **Interpolation**
d) **Amortization**

MCQ 28

If you are considering two projects namely, Project X & Project Y; NPV of X is higher than Y but IRR of Y is greater than X then you will select -

a) **Project Y**
b) **Project X**
c) **Some other project**
d) **None of the above**

MCQ 29

Profitability Index of 0.92 for a project means that

a) **The project's costs (cash outlay) are (is) less than the present value of the project's benefits.**
b) **The project's NPV is greater than zero.**
c) **The project's NPV is greater than 1.**
d) **The project returns 92 cents in present value for each rupee invested.**

MCQ 30

The decision to accept or reject a capital budgeting project depends on -

a) An analysis of the cash flows generated by the project
b) Cost of capital that is invested in business/project.
c) Both (A) and (B)
d) Neither (A) nor (B)

ANSWER KEY

SR.NO	ANSWER	SR.NO	ANSWER
1	D	16	C
2	A	17	C
3	A	18	B
4	B	19	A
5	C	20	D
6	A	21	D
7	A	22	B
8	B	23	B
9	A	24	A
10	B	25	D
11	C	26	A
12	D	27	C
13	A	28	B
14	A	29	D
15	C	30	C

WORKING CAPITAL MANAGEMENT

MCQ 1

A company wants to use a factor. The following information is relevant. Compute Net Benefit/Loss on Entering into Factoring Agreement.

a. The current average collection period for the company's debts is 80 days and 0.5% of debtors default. The factor will pay over money due after 60 days, and it will suffer the loss of bad debts.

b. The annual charge for factoring is 2% of turnover, payable annually in arrears. Administration cost savings will total Rs.1,00,000/- p.a.

c. Annual sales, all on credit, are Rs.100 Lakhs. Variable costs total 80% of sales price. The company's cost of borrowing is 20% p.a. Investment to be taken on the basis of sales & Assume 360 Days in a year.

A. 33,333
B. 61,111
C. (50,000)
D. 1,50,000

MCQ 2

The following annual figures relate to Dipti Co.

	Rs.
Sales (at two month's credit)	36,00,000
Material consumed (Suppliers extend two months credit)	9,00,000
Wages paid (monthly in arrear)	7,20,000
Manufacturing expenses outstanding at the end of the year	
(Cash Expenses are paid one month in arrear)	80,000
Total administrative Expenses, paid as above	2,40,000
Sales promotion expenses, paid quarterly in advances	1,20,000

The company sells its products on a gross profit of 25% counting depreciation as part of the cost of production. Calculate Amount Invested in Debtors on Cash Cost Basis

A. 3,43,333
B. 6,00,000
C. 4,90,000
D. 4,30,000

MCQ 3

A group of new customers with 10% risk of non payments desires to establish business connections with you. This group would require one and half month of credit and is likely to increase your sales by Rs.60,000 per annum. Production, administrative, & selling, expenses amount to 80 % of sales. You are required to pay income tax @ 35%. Calculate Net benefit/Loss if the required rate return is 52% (after tax)?

A. 1020
B. 4500
C. 2880
D. 780

MCQ 4

The following information is provided by MNP Ltd. for the year ending 31st March, 2020:

Raw Material Storage period	*45 days*
Work-in-Progress conversion period	*20 days*
Finished Goods storage period	*25 days*
Debt Collection period	*30 days*
Creditors payment period	*60 days*
Annual Operating Cost	*₹ 25,00,000*
(Including Depreciation of ₹ 2,50,000)	

Assume 360 days in a year.

Compute The amount of Working capital required on Cash Cost Basis

A. 416667

B. 425000

C. 375000

D. 401333

MCQ 5

WIP Conversion Period = 18 days

Raw Material Consumed = ₹8,42,000

Stock of WIP=₹72,000

Cost of Production = ?

(a) ₹ 14,00,000
(b) ₹ 22,67,000
(c) ₹ 5,83,000
(d) ₹ 14,60,000

MCQ 6

Maximum permissible bank finance as per the first method of Tandon Committee norms was ₹57,41,813 while current liabilities are reported at ₹32,50,000. Current assets =?

(a) ₹ 1,09,05,750
(b) ₹ 81,79,313
(c) ₹ 1,09,07,550
(d) ₹ 1,05,09,750

MCQ 7

Operating cost is ₹18,90,000.

Current assets are ₹5,20,000

Current liabilities are ₹1,00,000

Operating cycle days =?

(Assume a 360 day year.)

(a) 80 days
(b) 99 days
(c) 19 days
(d) 70 days

MCQ 8

No. of operating cycle in a year- 4.5

Operating cost =?

Gross profit ratio = 20%

No. of days in year = 360 days

Working capital 8,40,000

(a) ₹ 35,00,000
(b) ₹ 37,80,000
(c) ₹ 36,40,000
(d) ₹ 38,80,000

MCQ 9

If current assets are ₹1,09,05,750 and current liabilities are ₹32,50,000 then maximum permissible bank finance as per second method of Tandon Committee norms is

(a) ₹ 57,41,813
(b) ₹ 49,29,313
(c) ₹ 52,29,813
(d) ₹ 49,41,813

MCQ 10

Z Ltd has an estimated cash payment of ₹8,00,000 for a one-month period and the payments are expected to steady over the period. The fixed cost per transaction is ₹250 and the interest rate on marketable securities is 12% pa. Optimal cash balance and No. of transaction =?

(a) 20,000; 4.8

(b) 2,00,000; 48

(c) 20,00,000,48

(d) 2,00,00,000;4,800

MCQ 11

The budgeted sales for the next four quarters are ₹1,92,000, ₹2,88,000, ₹2,88,000 & ₹3,36,000, respectively. It is estimated that sales will be paid as follows:

75% of the total will be paid in the quarter in which the sales were made. Of the balance, 50% will be paid in the quarter after the sale was made. The remaining 50% will be paid in the quarter Next to next of sales .The amount of cash received in quarter 3 will be-

(a) ₹ 2,76,000
(b) ₹ 1,44,000
(c) ₹ 3,24,000
(d) ₹ 2,40,000

MCQ 12

The term float is used in:

(a) Inventory Management

(b) Receivable Management

(c) Cash Management

(d) Marketable securities.

MCQ 13

William J Baumol's model of Cash Management determines optimum cash level where the carrying cost and transaction cost are:

(a) Maximum

(b) Minimum

(c) Medium

(d) None of the above.

MCQ 14

In Miller – ORR Model of Cash Management:

(a) The lower, upper limit, and return point of Cash Balances are set out

(b) Only upper limit and return point are decided

(c) Only lower limit and return point are decided

(d) None of the above are decided.

MCQ 15

The concept operating cycle refers to the average time which elapses between the acquisition of raw materials and the final cash realization. This statement is:

(a) Correct

(b) Incorrect

(c) Partially True

(d) I cannot say.

MCQ 16

When a firm advises its customers to mail their payments to special Post Office collection centers, the system is known as.

(a) Concentration banking

(b) Lock Box system

(c) Playing the float

(d) None of the above.

MCQ 17

Estimated level of activity: 1,04,000 completed units of production plus 4,000 units of work-in-progress. Based on the above activity, estimated cost per unit is:

Raw material	₹ 80 per unit
Direct wages	₹ 30 per unit
Overheads (exclusive of depreciation)	₹ 60 per unit
Total cost	₹ 170 per unit
Selling price	₹ 200 per unit

Compute The Amount Blocked in WIP Assuming Degree of Completion is 75%

a) 500000
b) 510000
c) 680000
d) 750000

MCQ 18

A firm sells 40,000 units of its products per annum @ 35 per unit. The average cost per unit is Rs. 31 and the variable cost per unit is Rs.28. Th credit period Allowed is 50 Days & The average collection period is 60 days. The firm's required rate of return is 15%. Find opportunity Cost of Investing in Debtors . Assume 360 Days in a year

a) 41333
b) 35000
c) 31000
d) 25833

MCQ 19

Navya Ltd has annual credit sales of Rs. 45 lakhs. Credit terms are 30 days, but its management of receivables has been poor and the average collection period is 50 days, Bad debt is 0.4 per cent of sales. A factor has offered to take over the task of debt administration and credit checking, at an annual fee of 1 per cent of credit sales. Navya Ltd. estimates that it would save Rs. 35,000 per year in administration costs as a result. Due to the efficiency of the factor, the average collection period would reduce to 30 days and bad debts would be zero. The factor would advance 80 per cent of invoiced debts at an annual interest rate of 11 per cent. Navya Ltd. is currently financing receivables from an overdraft costing 10 per cent per year.

Compute Saving in Interest Cost on Entering into Factoring Arrangement

a) 29699
b) 21699
c) 20000
d) 22699

MCQ 20

K Ltd. has a Quarterly cash outflow of ₹ 9,00,000 arising uniformly during the Quarter. The company has an Investment portfolio of Marketable Securities. It plans to meet the demands for cash by periodically selling marketable securities. The marketable securities are generating a return of 12% p.a. Transaction cost of converting investments to cash is ₹ 60. The company uses Baumol model to find out the optimal transaction size for converting marketable securities into cash.

Consider 360 days in a year.

You are required to calculate

(i) Company's average cash balance,

a) 60000
b) 90000
c) 42426
d) 30000

MCQ 21

The term 'net 50' implies that the customer will make payment:

(a) Exactly on 50th day

(b) Before 50th day

(c) Not later than 50th day

(d) None of the above.

MCQ 22

A conservative Working Capital policy implies-

(a) Greater liquidity and lower risk
(b) Greater risk and lower liquidity
(c) Negligible risk
(d) No risk at all with low liquidity

MCQ 23

The payment terms 2/10, Net 30 tell us that:

(a) A 2% discount will be awarded if the payment is made within 10 days of the invoice date; otherwise, the full amount is payable within the next 10 days of the invoice date.

(b) A 10% discount will be awarded if the payment is made within 20 days of the invoice date; otherwise, the full amount is payable within 30 days of the invoice date.

(c) 2% discount will be awarded if the payment is made within 30 days of the invoice date; otherwise, the full amount is payable within the next 10 days of the invoice.

(d) 2% discount will be awarded if the payment is made within 10 days of the invoice date otherwise, the full amount is payable within 30 days of the invoice date.

MCQ 24

In ____ type of factoring the bank/factor takes all the risk and bears all the loss in case of debts becoming bad debts.

(a) Non-Recourse Factoring
(b) Invoice Discounting
(c) Maturity Factoring
(d) Recourse Factoring

MCQ 25

The following information is available in respect of Sai trading company:

(i) On an average, debtors are collected after 45 days; inventories have an average holding period of 75 days and creditor's payment period on an average is 30 days.

(ii) The firm spends a total of ₹ 120 lakhs annually at a constant rate.

(iii) It can earn 10 per cent on investments.

From the above information, you are required to CALCULATE:

Minimum amounts of cash to be maintained to meet payments as they become due,

a) 20 lakhs
b) 120 Lakhs
c) 60 Lakhs
d) 30 lakhs

MCQ 26

Estimated wages for January is ₹ 4,000 and for February ₹ 4,400. If the delay in payment of wages is 1/2 month, the number of wages to be considered In the cash budget for the month of February will be___

a) ₹ 4,000
b) ₹ 4,400
c) ₹ 4,600
d) ₹ 4,200

MCQ 27

While preparing the cash budget, which of the following items would not be included

a) **Interest paid to debenture holders**
b) **Salaries and wages**
c) **Bonus shares issued**
d) **Income-tax paid**

MCQ 28

If the beginning balance of cash is ₹ 5,000 and the desired closing cash balance is ₹ 10,000, with the only other cash-related items being sales/revenue ₹ 15,00,000, direct materials purchases ₹ 10,45,000, and cost of direct labour ₹ 4,68,000, what would be the surplus or deficit of cash at the end of the period?

a) **Deficit of ₹ 8,000**
b) **Surplus of ₹ 18,000**
c) **Deficit of ₹ 18,000**
d) **Surplus of ₹ 8,000**

MCQ 29

If credit sales for the year are ₹ 5,40,000 and Debtors at the end of the year are ₹ 90,000 the Average Collection Period will be?
Note: 1 year = 365 days

a) 30 days
b) 61 days
c) 90 days
d) 120 days

MCQ 30

The raw material holding period is 36 days. Raw material consumed and cost of goods sold in the year is ₹ 1,80,000 & ₹ 2,16,000 respectively. How much raw material stock will appear in the working capital statement? Note: 1 Year = 360 days

a) ₹ 18,000
b) ₹ 20,000
c) ₹ 21,600
d) ₹ 19,800

MCQ 31

Suppose ABC Ltd. has been offered credit terms from its major supplier of 2/10, net 45. Hence the company has the choice of paying Rs.98 per Rs.100 or to invest Rs.98 for an additional 35 days and eventually pay the supplier Rs.100 per Rs.100. Calculate Annual Cost of payables (without Compounding)

a) 20.12%
b) 23.44%
c) 21.28%
d) 24.48%

MCQ 32

Slide Ltd. is preparing a cash flow forecast for the three-month period from January to the end of March. The following sales volumes have been forecasted:

Months	December	January	February	March	April
Sales (units)	1,800	1,875	1,950	2,100	2,250

Production of goods for sale take place one month before sales. Each unit produced requires two units of raw materials costing Rs. 150 per unit. No raw material inventory is held. Raw material purchases are on one month credit.

Compute Payment to creditors for the month of February

a) **562500**
b) **585000**
c) **630000**
d) **675000**

MCQ 33

A factoring firm has offered a company to buy it’s accounts receivables.
The relevant information is given below.

1. The current average collection period for the company’s debt is 80 days and 0.25% of debtors default. The factor has agreed to pay over money due, to the company after 60 days and it will suffer all the losses of bad debts also.
2. Factor will charge commission @2%.
3. The company spends Rs. 1,00,000 p.a. on administration of debtors.
4. Annual credit sales are Rs. 90 lakhs. Total variable cost is 80% of sales. The company’s cost of borrowing is 15% per annum. Assume 365 days in a year.

Compute Net benefit on Entering into factoring Arrangement

a) 24178
b) 1678
c) 59178
d) 180000

MCQ 34

	Rs
Sales – Domestic at one month's credit	18,00,000
Export at three month's credit (sales price 10% below domestic price)	8,10,000

If The Gross Profit on Domestic Sales is 20% , Compute GP margin on Export Sales

a) 20%
b) 11.11%
c) 12.50%
d) 10%

MCQ 35

Suppose ABC Ltd. has been offered credit terms from its major supplier of 2/10, net 45. Hence the company has the choice of paying Rs.98 per Rs.100 or to invest Rs.98 for an additional 35 days and eventually pay the supplier Rs.100 per Rs.100. Calculate Annual Cost of payables (with Compounding)

a) **20.12%**
b) **23.44%**
c) **21.28%**
d) **24.48%**

WCM

ANSWER KEY

SR.NO	ANSWER	SR.NO	ANSWER	SR.NO	ANSWER
1	B	16	B	31	C
2	C	17	B	32	B
3	D	18	C	33	B
4	C	19	B	34	B
5	D	20	D	35	B
6	A	21	C		
7	A	22	A		
8	B	23	D		
9	B	24	A		
10	B	25	D		
11	A	26	D		
12	C	27	C		
13	B	28	C		
14	A	29	B		
15	A	30	A		

DIVIDEND DECISIONS

MCQ 1

Earnings of the company	*₹10,00,000*
Dividend paid	*₹6,00,000*
No. of shares outstanding	*2,00,000*
Price Earnings Ratio	*10*
Rate of return on investment	*20%*

Determine Capitalization rate of Its Risk Class??

A) 10%

B) 20%

C) 12.50%

D) 15%

MCQ 2

The following figures are extracted from the annual report of RJ Ltd.:

Net Profit	*₹ 50 Lakhs*
Outstanding 13% preference shares	*₹ 200 Lakhs*
No. of Equity Shares	*6 Lakhs*
Return on Investment	*25%*
Cost of Capital (K_e)	*15%*

You are required to compute the approximate dividend pay-out ratio by keeping the share price at ₹ 40 by using Walter's Model.

A) 0%

B) 25%

C) 50%

D) 100%

MCQ 3

	(₹)
Total Earnings	2,00,000
No. of equity shares (of ₹ 100 each)	20,000
Dividend paid	1,50,000
Price/ Earnings ratio	12.5

Determine Optimum Dividend Payout Ratio

A) 0%

B) 25%

C) 50%

D) 100%

MCQ 4

Aakash Ltd. has 10 lakh equity shares outstanding at the start of the accounting year 2021. The existing market price per share is ₹ 150. Expected dividend is ₹ 8 per share. The rate of capitalization appropriate to the risk class to which the company belongs is 10%.

Compute Market Price if Dividend is Paid

A) 165

B) 150

C) 157

D) 200

MCQ 5

Aakash Ltd. has 10 lakh equity shares outstanding at the start of the accounting year 2021. The existing market price per share is ₹ 150. Expected dividend is ₹ 8 per share. The rate of capitalization appropriate to the risk class to which the company belongs is 10%.

Determine Value of Firm if Investment Required is 600 lakhs & Earnings is 300 Lakhs , if Dividend is not Paid

A) 1950 Lakhs

B) 1800 Lakhs

C) 1650 Lakhs

D) 1500 lakhs

MCQ 6

ZX Ltd. has a paid-up share capital of Rs.1,00,00,000, face value of Rs.100 each. The current market price of the shares is Rs.100 each. The Board of Directors of the company has an agenda of meeting to pay a dividend of 50% to its shareholders. The company expects a net income of Rs.75,00,000 at the end of the current financial year. Company also plans for a capital expenditure for the next financial year for a cost of Rs.95,00,000, which can be financed through retained earnings and issue of new equity shares.

Company's desired rate of investment is 15%.

Determine No. of Additional Shares to be issued if Dividend is Paid?

A) 17392 Shares

B) 24305 Shares

C) 107693 Shares

D) 102100 Shares

MCQ 7

Ordinary shares of listed company are currently trading at of ₹10 per share with two lakh shares outstanding. The company anticipates that its earning for next year will be ₹ 500000. Existing Cost of capital for equity shares is 15%. The company has certain investment proposals under discussion which will cause an additional 26,089 ordinary shares to be issued if no dividend is paid or an additional 47,619 ordinary shares to be issued if dividend is paid.

Determine Amount of Investment Under Consideration By Company

A) 500000

B) 800000

C) 1000000

D) 1200000

MCQ 8

Ordinary shares of listed company are currently trading at of ₹10 per share with two lakh shares outstanding. The company anticipates that its earning for next year will be ₹ 500000. Existing Cost of capital for equity shares is 15%. The company has certain investment proposals under discussion which will cause an additional 26,089 ordinary shares to be issued if no dividend is paid or an additional 47,619 ordinary shares to be issued if dividend is paid.

Determine Amount of Dividend under Consideration By Company?

A) 10.50

B) 11.50

C) 1.50

D) 1.00

MCQ 9

Particular	Amount (Rs)
Net profit	50 lakhs
Outstanding 15% preference share	100 lakhs
No. of equity shares	5 lakhs
Return on investment	20%
Cost of capital i.e.(K_e)	16%

Calculate price per share using Gordon's Model when dividend pay-out is 50%

A) 175

B) 43.75

C) 58.33

D) 50

MCQ 10

X Ltd. is a multinational company. Current market price per share is Rs 2,185. During the F.Y. 20-21, the company paid Rs 140 as Dividend per share. The company is expected to grow @ 12% p.a. for next four years, then 5% p.a. for an indefinite period. Expected rate of return of shareholders is 18% p.a. Find out Price of Share at the End of 4th Year.

Year	1	2	3	4	5
Discounting factor @ 18%	0.847	0.718	0.608	0.515	0.436

A) 1408

B) 1779

C) 2185

D) 1850

MCQ 11

Which one of the following is the assumption of Gordon's Model:

(a) Ke > g

(b) Retention ratio, (b), once decide upon, is constant

(c) Firm is an all equity firm

(d) All of the above

MCQ 12

What should be the optimum Dividend pay-out ratio, when $r = 15\%$ & $K_e = 12\%$:

(a) 100%

(b) 50%

(c) Zero

(d) None of the above.

MCQ 13

Which of the following is the irrelevance theory?

(a) Walter model

(b) Gordon model

(c) M.M. hypothesis

(d) Linter's model

MCQ 14

If the company's D/P ratio is 60% & ROI is 16%, what should be the growth rate?

(a) 5%

(b) 7%

(c) 6.4%

(d) 9.6%

MCQ 15

If the shareholders prefer regular income, how does this affect the dividend decision:

(a) It will lead to payment of dividend

(b) It is the indicator to retain more earnings

(c) It has no impact on dividend decision

(d) Can't say

MCQ 16

Mature companies having few investment opportunities will show high payout ratios, this statement is:

(a) False

(b) True

(c) Partial true

(d) None of these

MCQ 17

Which of the following is the limitation of Linter's model?

(a) This model does not offer a market price for the shares.

(b) The adjustment factor is an arbitrary number and not based on any scientific criterion or methods.

(c) Both (a) & (b)

(d) None of the above.

MCQ 18

What are the different options other than cash used for distributing profits to shareholders?

(a) Bonus shares

(b) Stock split

(c) Both (a) and (b)

(d) None of the above

MCQ 19

Which of the following statement is correct with respect to Gordon's model?

(a) When IRR is greater than cost of capital, the price per share increases and dividend pay-out decreases.

(b) When IRR is greater than cost of capital, the price per share decreases and dividend pay-out increases.

(c) When IRR is equal to cost of capital, the price per share increases and dividend pay-out decreases.

(d) When IRR is lower than cost of capital, the price per share increases and dividend pay-out decreases.

MCQ 20

Which among the following is not an assumption of Walter's Model?

(a) Rate of return and cost of capital are constant

(b) Information is freely available to all

(c) There is discrimination in taxes

(d) The firm has perpetual life

MCQ 21

Earnings of the company	*₹10,00,000*
Dividend paid	*₹6,00,000*
No. of shares outstanding	*2,00,000*
Price Earnings Ratio	*10*
Rate of return on investment	*20%*

Determine Market price of Share??

A) 50
B) 70
C) 50/70
D) None of The above

MCQ 22

	(₹)
Total Earnings	2,00,000
No. of equity shares (of ₹ 100 each)	20,000
Dividend paid	1,50,000
Price/ Earnings ratio	12.5

Determine PE Ratio at Which Dividend Policy Will have no Effect on value of Share

A) 8

B) 10

C) 12.50

D) 15

MCQ 23

Given the last year's dividend is Rs 9.80, speed of adjustment of 60%, target payout ratio is 60% and EPS for current year Rs 20. Compute current year's dividend using Linter's model.

A) 10.79

B) 10.50

C) 12.50

D) 11.12

MCQ 24

Following information is given pertaining to DG ltd,

No of shares outstanding	1 lakh shares
Earnings Per share	25 per share
P/E Ratio	20
Book Value per share	400 per share

If company decides to repurchase 5,000 shares, at the prevailing market price, what is the resulting book value per share after repurchasing.

A) 400

B) 500

C) 367

D) 395

MCQ 25

Mr A is currently holding 1,00,000 shares of HM ltd, and currently the share of HM ltd is trading on Bombay Stock Exchange at ₹50 per share. Mr A have a policy to re-invest the amount of any dividend received into the shares back again of HM ltd. If HM ltd has declared a dividend of 15 per share, please determine the no of shares that Mr A Could Additionally Buy after he re-invests dividend in shares of HM ltd.

A) 42858

B) 42857

C) 125000

D) 25000

MCQ 26

Determine Ke , If PE Ratio is is 8 , MPS is 120 & EPS is 15

a) 8 %
b) 15%
c) 12.50%
d) 25%

MCQ 27

If a firm declared 25% dividend on share of face value of Rs 10 its growth rate is 5% & its rate of capitalisation is 12% its expected price would be Rs ………...

a) 31.2
b) 33.50
c) 36
d) 37.50

MCQ 28

Determine the market price of share of XYZ ltd as per gordon's model, given equity capitalisation rate = 11% expected earning = Rs. 20 rate of return on investment = 10% & retention ratio = 30%

a) 165
b) 175
c) 185
d) 195

MCQ 29

The cost of capital of a firm is 12% & its expected earning per share at the end of the year is Rs 20. its existing payout ratio is 25%. the company is planning to increase its payout ratio to 50% what will be the effect of this change on the market price of equity share (MPS) of the company as per Gordon model, If the reinvestment rate of the company is 15%

a) **It will increase by Rs 444.45**
b) **It will decrease by Rs 444.45**
c) **It will increase by Rs 222.22**
d) **It will decrease by Rs 222.22**

MCQ 30

If the financing requirements are to be executed through debt (relatively cheaper source of finance), then it would be preferable to distribute..............

a) **More Dividend**
b) **Less dividend**
c) **No Dividend**
d) **None of the above**

ANSWER KEY

SR.NO	ANSWER	SR.NO	ANSWER
1	A	16	B
2	B	17	C
3	A	18	A
4	C	19	A
5	D	20	C
6	C	21	C
7	B	22	B
8	D	23	D
9	C	24	D
10	B	25	B
11	D	26	C
12	C	27	D
13	C	28	B
14	C	29	B
15	A	30	A

RATIO ANALYSIS

MCQ 1

In an organization, the current ratio is 2.5, the liquid ratio 1.5, prepaid expenses nil, and stock 4,000.

The amount of current liabilities is –

(a)20,000
(b)40,000
(c)80,000
(d)4,000

MCQ 2

Credit sales of Jump Ltd. for the year is 12,00,000 and debtors at the end of year ₹2,40,000. Assuming 360 days in a year, the average collection period will be-

(a) 60 Days
(b) 72 Days
(c) 180 Days
(d) 80 Days

MCQ 3

From the following Information find the value of closing stock

Stock velocity: 6 months , Gross profit ratio: 25% Gross profit for the year ended 31st March 2014: ₹ 1,00,000 Closing stock for the period is 20,000 more than it was at the beginning of the year.

(a) ₹ 1,50,000
(b) ₹ 1,40,000
(c) ₹ 1,60,000
(d) ₹ 70,000

MCQ 4

Determine a firm's total assets turnover Ratio , if its net profits margin is 8%, total assets are 8,00,000 and the return on investment is 14%

(a) 2.05
(b) 4.00
(c) 1.75
(d) 2.00

MCQ 5

If average collection period is 15 days and average account receivables is 45,000, the total amount of credit sales will be (assume 360 days in a year)

(a) ₹ 10,80,000
(b) ₹ 16,20,000
(c) ₹ 6,75,000
(d) ₹ 1,87,500

MCQ 6

Net Assets means

(a) Fixed Assets +Current Assets
(b) Fixed Assets + Working Capital
(c) Total Capital Employed
(d) Both B & C

MCQ 7

A company has annual sales of 150 lakh entirely on credit. It keeps an average inventory sufficient to meet sales demand for half a month and gives its customers one month credit. Its average current liabilities are 10 lakh. The company must maintain cash and bank balance to have a current ratio of 2. The amount of cash balance will be

(a) ₹ 1,25,000
(b) ₹ 3,00,000
(c) ₹ 13,75,000
(d) ₹ 7,50,000

MCQ 8

Net profit Margin = 10% , GP Ratio = 20% , Gross profit = 1000000 , Interest = 100000 , Tax Rate = 50% , operating Expenses = ?

(a) ₹ 900000
(b) ₹ 500000
(c) ₹ 600000
(d) ₹ 400000

MCQ 9

Equity share capital	Rs. 1,00,000
The relevant ratios of the company are as follows:	
Current debt to total debt	0.40
Total debt to Equity share capital	0.60
Fixed assets to Equity share capital	0.60
Total assets turnover	2 Times
Inventory turnover	8 Times

Find Amount of Cash

(a) 40000
(b) 160000
(c) 100000
(d) 60000

MCQ 10

The dividend is related to the market value of shares in .

A. interest cover ratio.

B. fixed dividend cover ratio.

C. debt service coverage ratio.

D. dividend yield ratio.

MCQ 11

Ratio of Net sales to Net working capital is a:

(a) Profitability ratio

(b) Liquidity ratio

(c) Current ratio

(d) Working capital turnover ratio

MCQ 12

Long-term solvency is indicated by:

(a) Debt/equity ratio

(b) Current Ratio

(c) Operating ratio

(d) Net profit ratio

MCQ 13

Ratio of net profit before interest and tax to sales is:

(a) Gross profit ratio

(b) Net profit ratio

(c) Operating profit ratio

(d) Interest coverage ratio.

MCQ 14

Cost of goods sold 4,00,000 Administration & office expenses 35,000 Selling & distribution expenses 45,000 Net credit sales 4,75,000 Cash sales 1,25,000

Operating profit ratio will be

(a) 30%
(b) 35%
(c) 20%
(d) 25%

MCQ 15

The Receivable-Turnover ratio helps management to:

(a) Managing resources

(b) Managing inventory

(c) Managing customer relationship

(d) Managing working capital

MCQ 16

Which of the following is a liquidity ratio?

(a) Equity ratio

(b) Proprietary ratio

(c) Net Working Capital

(d) Capital Gearing ratio

MCQ 17

Which of the following is not a part of Quick Assets?

(a) Disposable investments

(b) Receivables

(c) Cash and Cash equivalents

(d) Prepaid expenses

MCQ 18

Capital Gearing ratio is the fraction of:

(a) Preference Share Capital and Debentures to Equity Share Capital and Reserve & Surplus.

(b) Equity Share Capital and Reserve & Surplus to Preference Share Capital and Debentures.

(c) Equity Share Capital to Total Assets.

(d) Total Assets to Equity Share Capital.

MCQ 19

From the following information, calculate P/E ratio:

Equity share capital of ₹ 10 each	*₹ 8,00,000*
9% Preference share capital of ₹ 10 each	*₹ 3,00,000*
Profit (after 35% tax)	*₹ 2,67,000*
Depreciation	*₹ 67,000*
Market price of equity share	*₹ 48*

(a) 15 times

(b) 16 times

(c) 17 times

(d) 18 times

MCQ 20

Equity multiplier allows the investor to see:

(a) *What portion of interest on debt can be covered from earnings available to equity shareholders?*

(b) *How many times preference share interest be paid from earnings available to equity shareholders?*

(c) *What portion of return on equity is the result of debt?*

(d) *How many times equity is multiplied to get the value of debt?*

MCQ 21

A company has average accounts receivable of ₹ 10,00,000 and annual credit sales of ₹ 60,00,000. Its average collection period would be:

(a) 60.83 days

(b) 6.00 days

(c) 1.67 days

(d) 0.67 days

MCQ 22

Which one of the following statements is correct

(a) Lower debt-equity ratio means lower financial risk
(b) Increase in net profit ratio means an increase in sales
(c) A higher receivable turnover is not desirable
(d) Interest coverage ratio depends upon the tax rate

MCQ 23

What does Q ratio measures?

(a) Relationship between market value and book value per equity share.

(b) Proportion of profit available per equity share.

(c) Overall earnings on average total assets.

(d) Market value of equity as well as debt in comparison to all assets at their replacement cost.

MCQ 24

Sun Ltd. has furnished the following relevant data of financial statements as of 31st March 2016:

Equity share capital (₹1,00,000 equity shares of 100 each)	₹ 10,00,000
General reserve	₹ 2,00,000
15% Debentures	₹ 2,80,000
Current liabilities	8,00,000
Fixed assets	30,00,000
Current assets	18,00,000

Annual fixed cost 2,80,000 excluding interest , Variable cost ratio 60% , Total assets turnover ratio 2.5 times , Tax rate 30% , Earnings per share (EPS) will be

(a) ₹ 31.35
(b) ₹ 15.80
(c) ₹ 20.00
(d) ₹ None of the above

MCQ 25

Which of the following is not a profitability ratio?

(a) P/E ratio

(b) Return on capital employed (ROCE)

(c) Q Ratio

(d) Preference Dividend Coverage Ratio

MCQ 26

If Gross Profit = 54,000, GP Ratio = 20%, Average collection period is 18 days (360 Days year), then find out Average Debtors considering that credit sales are 80% of total sales?

a) **13,500**
b) **10,800**
c) **12,000**
d) **14,000**

MCQ 27

Current Ratio is 2.5:1 and Liquid Ratio is 1.5:1. If inventory is ₹ 9,60,000, then the amount of current assets will be:

a) ₹ 9.6 Lakh
b) ₹ 14.40 Lakh
c) ₹ 24 Lakh
d) ₹ 38.40 Lakh

MCQ 28

If Working capital of company is ₹ 1,35,000, Current ratio = 2.5, Liquid ratio = 1.5, reserve & surplus is = 90,000 then what are the Quick assets of the company?

a) **90,000**
b) **1,35,000**
c) **1,45,000**
d) **60,000**

MCQ 29

Opening stock ₹ 29,000 Closing stock ₹ 31,000 Purchases ₹ 2,42,000 Stock turnover ratio will be-

a) **12 Times**
b) **15 Times**
c) **9 Times**
d) **8 Times**

MCQ 30

The relevant data from financial statements of Ross Ltd. as on 31st March, 2016 is given below:

Cash ₹ 1,50,000
Trade receivables ₹ 4,00,000
Investment (short-term) ₹ 3,30,000
Stock ₹ 25,00,000
Prepaid expenses ₹ 50,000
Current liabilities ₹ 10,00,000
The quick ratio will be.......

a) 0.88: 1
b) 0.93: 1
c) 3.43:
d) 3.1: 1

ANSWER KEY

SR.NO	ANSWER	SR.NO	ANSWER
1	D	16	C
2	B	17	D
3	C	18	A
4	C	19	B
5	A	20	C
6	D	21	A
7	A	22	A
8	D	23	D
9	D	24	A
10	D	25	D
11	D	26	B
12	A	27	C
13	C	28	B
14	C	29	D
15	D	30	A

FM CASE SCENARIO MCQ'S

CASE SCENARIO 1

ArMore LLP is a newly established startup dealing in manufacture of a revolutionary product HDHMR which is a substitute to conventional wood and plywood. It is an economical substitute for manufacture of furniture and home furnishing. It has been asked by a venture capitalist for an estimated amount of funds required for setting up plant and also the amount of circulating capital required. A consultant hired by the entity has advised that the cost of setting up the plant would be Rs. 5 Crores and it will require 1 year to make the plant operational. The anticipated revenue and associated cost numbers are as follows:

Units to be sold = 3 lakh sq. metres p.a.

Sale Price of each sq. mtr = Rs. 1000

Raw Material cost = Rs. 200 per sq. mtr

Labour cost = Rs. 50 per hour

Labour hours per sq. mtr = 3 hours

Cash Manufacturing Overheads = Rs. 75 per machine hour

Machine hours per sq. mtr = 2 hours

Selling and credit administration Overheads = Rs. 250 per sq. mtr

Being a new product in the industry, the firm will have to give a longer credit period of 3 months to its customers. It will maintain a stock of raw material equal to 15% of annual consumption. Based on negotiation with the creditors, the payment period has been agreed to be 1 month from the date of purchase. The entity will hold finished goods equal to 2 months of units to be sold. All other expenses are to be paid one month in arrears. Cash and Bank balance to the tune of Rs. 25,00,000 is required to be maintained.

The entity is also considering reducing the working capital requirement by either of the two options: a) reducing the credit period to customers by a month which will lead to reduction in sales by 5%. b) Engaging with a factor for managing the receivables, who will charge a commission of 2% of invoice value and will also advance 65% of receivables @ 12% p.a. This will lead to savings in administration and bad debts cost to the extent of Rs. 20 lakhs and 16 lakhs respectively.

The entity is also considering funding a part of working capital by bank loan. For this purpose, bank has stipulated that it will grant 75% of net current assets as advance against working capital. The bank has quoted 16.5% rate of interest with a condition of opening a current account with it, which will require 10% of loan amount to be minimum average balance.

You being an finance manager, has been asked the following questions:

Question - 1

The anticipated profit before tax per annum after the plant is operational is …………….

a) 750 Lakhs
b) 570 Lakhs
c) 370 Lakhs
d) 525 Lakhs

Answer: (a) 750 Lakhs

Description:

	Units	Per unit (₹)	Amount (₹)
Raw Material consumption	3,50,000	200	7,00,00,000
labour cost	3,50,000	150	5,25,00,000
Production Overheads	3,50,000	150	5,25,00,000
Cost of Production	**3,50,000**	**500**	**17,50,00,000**
Less: Stock of FG	50,000	500	2,50,00,000
COGS	**3,00,000**	**500**	**15,00,00,000**
Selling and admin exp	3,00,000	250	7,50,00,000
Cost of Sales	**3,00,000**	**750**	**22,50,00,000**
Sales	3,00,000	1000	30,00,00,000
Profit	**3,00,000**	**250**	**7,50,00,000**

Stock of FG (sq. mtr.) = 30,00,000x2/12 = 50,000

Units sold = 3,00,000

Raw material consumed (sq. mtr.) = 3,50,000

Raw Material Purchases = Consumption + RM stock (15%)

= 7,00,00,000 + 1,05,00,000

= ₹ 8,05,00,000

Question - 2

The estimated current assets requirement in the first year of operation (debtors calculated at cost) is ……….

a) 9,42,50,000
b) 2,17,08,333
c) 7,25,41,667
d) 67,08,333

Answer: (a) 9,42,50,000

Description:

Stock of Raw Material (15% of 7,00,00,000)	= 1,05,00,000
Stock of finished goods	= 2,50,00,000
Debtors (22,50,00,000 x 3/12)	= 5,62,50,000
Cash	= 25,00,000
Total Current Assets	**= 9,42,50,000**

Question - 3

The net working capital requirement for the first year of operation is ……….

a) 9,42,50,000
b) 2,17,08,333
c) 7,25,41,667
d) 67,08,333

Answer: (c) 7,25,41,667

Description:

Working Capital Statement

	Amount (₹)
Stock of Raw Material (15% of 7,00,00,000)	1,05,00,000
Stock of finished goods	2,50,00,000
Debtors (22,50,00,000 x 3/12)	5,62,50,000
Cash	25,00,000
Total Current Assets	**9,42,50,000**
Creditors (8,05,00,000 x 1/12)	67,08,333
O/s Exp (18,00,00,000 x 1/12)	1,50,00,000
Total Current Liabilities	**2,17,08,333**
Net Working Capital	**7,25,41,667**

Question - 4

The annualised % cost of two options for reducing the working capital is ……….

a) 18.18% and 16.92%
b) 18.33% and 16.92%
c) 18.59% and 18.33%
d) 16.92% and 19.05%

Answer: (a) 18.18% and 16.92%

Description:

Cost reducing debtors credit period

Debtors credit period = 2 months

Debtors balance = 21,37,50,000(2,85,000 units) x 2/12 = ₹3,56,25,000

Debtors credit period = 3 months

Debtors balance = 22,50,00,000 x 3/12
= ₹ 5,62,50,000

Amount released from debtors = ₹ 2,06,25,000

reduction in profit (15,000 units x ₹ 250) = ₹ 37,50,000

% p.a. cost (37,50,000/2,06,25,000) = **18.18%**

Costs of factoring

Commission (2% of 30 crores) = ₹ 60,00,000

Interest = ₹ 58,50,000

(30cr x 65% x 12% x 3/12)

savings = ₹ 36,00,000

Net cost of factoring $\dfrac{82,50,000}{65\% \text{ of } 30cr. \text{ i.e. } 19,50,00,000} \times \dfrac{12}{3}$

= ₹ 82,50,000

% p.a. cost = **16.92%**

Question - 5

What will be the Maximum Permissible Bank Finance by the bank and annualised % cost of the same?

a) 4,55,03,630 and 18.33%
b) 5,44,06,250 and 18.33%
c) 4,45,86,025 and 18.59%
d) 3,45,89,020 and 19.85%

Answer: (a) 18.18% and 16.92%

Description:

Maximum Permissible Bank Finance	= 75% of 7,25,41,667
	= ₹ 5,44,06,250
Annualised cost of bank loan	= 16.5/90% = 18.33%

CASE SCENARIO 2

NV Industries Ltd. is a manufacturing industry which manages its accounts receivables internally by its sales and credit department. It supplies small articles to different industries. The total sales ledger of the company stands at Rs. 200 lakhs of which 80% is credit sales. The company has a credit policy of 2/40, net 120. Past experience of the company has been that on average out of the total, 50% of customers avail of discount and the balance of the receivables are collected on average in 120 days. The finance controller estimated, bad debt losses are around 1% of credit sales.

With escalating cost associated with the in-house management of the debtors coupled with the need to unburden the management with the task so as to focus on sales promotion, the CFO is examining the possibility of outsourcing its factoring service for managing its receivables. Currently, the firm spends about Rs. 2,40,000 per annum to administer its credit sales. These are avoidable as a factoring firm is prepared to buy the firm's receivables. The main elements of the proposal are: (i) It will charge 2% commission (ii) It will pay advance against receivables to the firm at an interest rate of 18% after withholding 10% as reserve.

Also, company has option to take long term loan at 15% interest or may take bank finance for working capital at 14% interest.

You were also present at the meeting; being a financial consultant, the CFO has asked you to be ready with the following questions:

Consider year as 360 days.

Question – 1

What is average level of receivables of the company?

a) Rs. 53,33,333
b) Rs. 35,55,556
c) Rs. 44,44,444
d) Rs. 71,11,111

Question - 2

How much advance factor will pay against receivables?

a) Rs. 31,28,889
b) Rs. 39,11,111
c) Rs. 30,03,733
d) Rs. 46,93,333

Question - 3

What is the annual cost of factoring to the company?

a) Rs. 8,83,200
b) Rs. 4,26,667
c) Rs. 5,51,823
d) Rs. 4,00,000

Question - 4

What is the net cost to the company on taking factoring service?

a) Rs. 4,00,000
b) Rs. 4,26,667
c) Rs. 3,50,000
d) Rs. 4,83,200

Question - 5

What is the effective cost of factoring on advance received?

a) 16.09%
b) 13.31%
c) 12.78%
d) 15.89%

Question - 1 Answer: (b) Rs. 35,55,556

Question - 2 Answer: (b) Rs. 35,55,556

Question - 3 Answer: (a) Rs. 8,83,200

Question - 4 Answer: (d) Rs. 4,83,200

Question - 5 Answer: (a) 16.09%

Working Note

Particulars	**(₹)**
Total Sales	₹ 200 lakhs
Credit Sales (80%)	₹ 160 lakhs
Receivables for 40 days	₹ 80 lakhs
Receivables for 120 days	₹ 80 lakhs
Average collection period [(40 x 0.5) + (120 × 0.5)]	80 days
Average level of Receivables (₹ 1,60,00,000 × 80/360)	₹ 35,55,556
Factoring Commission (₹ 35,55,556 × 2/100)	₹ 71,111
Factoring Reserve (₹ 35,55,556 × 10/100)	₹ 3,55,556
Amount available for advance {₹ 35,55,556 - (3,55,556 + 71,111)}	₹ 31,28,889
Factor will deduct his interest @ 18%: Interest = $\frac{₹31,28,889 \times 18 \times 80}{100 \times 360}$	₹ 1,25,156
Advance to be paid (₹ 31,28,889 – ₹ 1,25,156)	₹ 30,03,733

(i) Statement Showing Evaluation of Factoring Proposal

		₹
A.	**Annual Cost of Factoring to the Company:**	
	Factoring commission (₹ 71,111 × 360/80)	3,20,000
	Interest charges (₹ 1,25,156 × 360/80)	5,63,200
	Total	8,83,200
B.	**Company's Savings on taking Factoring Service:**	₹
	Cost of credit administration saved	2,40,000
	Bad Debts (₹ 160,00,000 x 1/100) avoided	1,60,000
	Total	4,00,000
C.	Net Cost to the company (A – B) (₹ 8,83,200 – ₹ 4,00,000)	4,83,200

$$\text{Effective cost of factoring} = \frac{₹\ 4,83,200}{₹\ 30,03,733} \times 100 = 16.09\%$$

CASE SCENARIO 3

Tiago Ltd is an all-equity company engaged in manufacturing of batteries for electric vehicles. There has been a surge in demand for their products due to rising oil prices. The company was established 5 years ago with an initial capital of Rs. 10,00,000 and since then it has raised funds by IPO taking the total paid up capital to Rs. 1 crore comprising of fully paid-up equity shares of face value Rs. 10 each. The company currently has undistributed reserves of Rs. 60,00,000. The company has been following constant dividend payout policy of 40% of earnings. The retained earnings by company are going to provide a return on equity of 20%. The current EPS is estimated as Rs. 20 and prevailing PE ratio on the share of company is 15x. The company wants to expand its capital base by raising additional funds by way of debt, preference and equity mix. The company requires an additional fund of Rs. 1,20,00,000. The target ratio of owned to borrowed funds is 4:1 post the fund-raising activity. Capital gearing is to be kept at 0.4x.

The existing debt markets are under pressure due to ongoing RBI action on NPAs of the commercial bank. Due to challenges in raising the debt funds, the company will have to offer Rs. 100 face value debentures at an attractive yield of 9.5% and a coupon rate of 8% to the investors. Issue expenses will amount to 4% of the proceeds.

The preference shares will have a face value of Rs. 1000 each offering a dividend rate of 10%. The preference shares will be issued at a premium of 5% and redeemed at a premium of 10% after 10 years at the same time at which debentures will be redeemed.

The CFO of the company is evaluating a new battery technology to invest the above raised money. The technology is expected to have a life of 7 years. It will generate a after tax marginal operating cash flow of Rs. 25,00,000 p.a.

Assume marginal tax rate to be 27%.

Question - 1

Which of the following is best estimate of cost of equity for Tiago Ltd?

a) 12.99%
b) 11.99%
c) 13.99%
d) 14.99%

Answer: (d) 14.99%

Description:

B = retention ratio=0.6, r=return on equity=20%, DPS=D0=20 x 0.4= 8,

MPS = P0 = EPS x PE = 20 x 15=300

G = b.r =0.6 x 20% = 12%

D1 = D0(1+g) = 8 (1.12) = 8.96

Ke = D1/P0 + g = 8.96/300 + 0.12 = 14.99%

Question - 2

Which of the following is the most accurate measure of issue price of debentures?

a) 100
b) 96
c) 90.58
d) 95.88

Answer: (c) 90.58

Description:

Price of debentures= PV of future cash flows for investor discounted at their yield

= 8 x PVAF(9.5%,10 years)+ 100 x PVF(9.5%, 10 years)

= 8 x 6.2788 + 100 x 0.4035

=50.2304 + 40.35

=90.58

Question - 3

Which of the following is the best estimate of cost of debentures to be issued by the company? (Using approximation method)

a) 7.64%
b) 6.74%
c) 4.64%
d) 5.78%

Answer: (a) 7.64%

Description:

NP = 90.58 x 96% = 86.96, RV = 100, Interest = 8, t = 0.27, n = 10

$$Kd = \frac{Int(1-t)+(RV-NP)/n}{(RV+NP)/2}$$

$$= \frac{8(1-0.27)+(100-86.96)/10}{(100+86.96)/2}$$

$$= 7.64\%$$

Question - 4

Calculate the cost of preference shares using approximation method

a) 10.23%
b) 9.77%
c) 12.12%
d) 12.22%

Answer: (b) 9.77%

Description:

$$Kp = \frac{PD + (RV - NP)/n}{(RV + NP)/2}$$

$$= \frac{100 + (1100 - 1050)/10}{(1100 + 1050)/2}$$

$$= 9.77\%$$

Question - 5

Which of the following best represents the overall cost of marginal capital to be raised?

a) 10.52%
b) 17.16%
c) 16.17%
d) 16.71%

Answer: (a) 10.52%

Description:

	Existing	Total	Additional	
Equity Funds	1,60,00,000	2,00,00,000	40,00,000	
Preference Shares		24,00,000	24,00,000	
Debt		56,00,000	56,00,000	
	1,60,00,000	2,80,00,000	1,20,00,000	
Capital gearing =	0.4			
(PSC + Debt)/Equity =	0.4			
(Total Funds -Equity)/ Equity = 0.4				
(2.8 crores-Equity)/ equity = 0.4				
Equity =	2 crores			
Weighted avg cost of marginal capital		**Weights**	**Cost**	**W.C**
Equity Funds	40,00,000	0.333333333	14.99%	5.00%
Preference Shares	24,00,000	0.2	9.77%	1.952%
Debt	56,00,000	0.466666667	7.64%	3.565%
Total	**1,20,00,000**			**10.52%**

CASE SCENARIO 4

Mathangi Ltd is a News broadcasting channel having its broadcasting Centre in Chennai. There are total 200 employees in the organisation including top management. As a part of employee benefit expenses, the company serves tea to its employees, which is outsourced from a third-party. The company offers tea three times a day to each of its employees. The third-party charges ₹ 10 for each cup of tea. The company works for 200 days in a year.

Looking at the substantial amount of expenditure on tea, the finance department has proposed to the management an installation of a master tea vending machine from Nirmal Ltd which will cost ₹ 5,00,000 with a useful life of five years. Upon purchasing the machine, the company will have to incur annual maintenance which will require a payment of ₹ 25,000 every year. The machine would require electricity consumption of 500 units p.m. and current incremental cost of electricity for the company is ₹ 24 per unit. Apart from these running costs, the company will have to incur ₹ 8,00,000 for consumables like milk, tea powder, paper cup, sugar etc. The company is in the 25% tax bracket. Straight line method of depreciation is allowed for the purpose of taxation.

Nirmal Ltd sells 100 master tea vending machines. Variable cost is ₹ 4,50,000 per machine and fixed operating cost is ₹ 25,00,000. Capital Structure of Mathangi Ltd and Nirmal Ltd consists of the following –

Particulars	Mathangi Ltd.	Nirmal Ltd.
Equity Share Capital (Face value ₹ 10 each)	40,00,000	40,00,000
Reserves & Surplus	25,00,000	50,00,000
12% Preference Share Capital	12,00,000	Nil
15% Debentures	20,00,000	40,00,000

Risk free rate of return = 5%, Market return = 10%, Beta of the company = 1.9

You are required to answer the following five questions based on the above details:

1. If sales of Nirmal Ltd are up by 10%, impact on its EBIT is

(a) 30%

(b) 60%

(c) 5%

(d) 20%

2. Combined leverage of Nirmal Ltd is

(a) 1.63

(b) 2.63

(c) 1.315

(d) 2

Option (b) 2.63

Reason:

Particulars	Computation	Result
Sales	100 × 5,00,000	5,00,00,000
Less Variable cost	100 × 4,50,000	4,50,00,000
Contribution		**50,00,000**
Less Fixed cost		25,00,000
EBIT		**25,00,000**
Less Interest	15% × 40,00,000	6,00,000
EBT		**19,00,000**

Operating leverage = Contribution ÷ EBIT = 50 Lakhs ÷ 25 Lakhs = 2 times

Operating leverage = % Change in EBIT ÷ % Change in Sales i.e. if sales increase by 10%, EBIT increase by 20%.

Financial leverage = EBIT ÷ EBT = 25 Lakhs ÷ 19 Lakhs = 1.315 times

Combined leverage = Operating leverage × Financial leverage = 2 × 1.315 = 2.63 times

3. Discount rate that can be applied for making investment decisions of Mathangi Ltd is

(a) 12%

(b) 13.52%

(c) 15%

(d) 20%

Option (b) 13.52%

Reason:

Particulars	Weights	Cost in %	Weights × Cost
Share Capital	40,00,000	5 + 1.9 × (10 – 5) = 14.5	5,80,000
Reserves & Surplus	25,00,000	14.5	3,62,500
Preference Share Capital	12,00,000	12	1,44,000
15% Debentures	20,00,000	15 × (1 – 25%) = 11.25	2,25,000
Total	**97,00,000**	**Total Cost**	**13,11,500**

Discount rate = WACC = 13,11,500 ÷ 97,00,000 × 100 = 13.52%

4. Incremental cash flow after tax per annum attributable to Mathangi Ltd due to investment in the machine is

(a) ₹ 2,39,438

(b) ₹ 1,98,250

(c) ₹ 98,250

(d) ₹ 1,31,000

Option (b) ₹ 1,98,250

Reason:

Particulars	Computation	Result
Savings in Tea cost	200 Employees × 200 days × 3 times × ₹ 10	12,00,000
Less: Annual maintenance		(25,000)
Less: Cost of Electricity	500 units × ₹ 24 per unit × 12 months	(1,44,000)
Less: Consumables		(8,00,000)
Less: Depreciation	5,00,000 ÷ 5 years	(1,00,000)
Profit before tax		**1,31,000**
Less: Tax	1,31,000 × 25%	32,750
Profit after tax		**98,250**
Add: Depreciation		1,00,000
Cash flow after tax	98,250 + 1,00,000	**1,98,250**

5. Net present value of investment in the machine by Mathangi Ltd is

(a) ₹ 6,88,522

(b) ₹ 1,88,522

(c) ₹ 9,91,250

(d) ₹ 4,91,250

Option (b) ₹ 1,88,522

Reason:

Year	Particulars	Cash flow	PVF@13.52%	PV
0	Initial investment	5,00,000	1	5,00,000
1 to 5	Savings	1,98,250	3.473	6,88,522
	Net present value			**1,88,522**

CASE SCENARIO 5

Samvar Ltd, a leading **FMCG** company having its current presence in more than 150 Tier I and Tier II cities in India. The stores are operating in the brand name of **GoMART** competing with Reliance fresh, Walmart, BigBazaar and other chains. Owing to the increase in demand from Tier III cities and rural areas, it is planning for massive expansion and is contemplating to open up additional 50 stores which will have variety of FMCG products.

The CFO and his team estimate that the funds needed for massive expansion would be ₹ 200 lakhs per store. Such funds would be utilized for buying out a space and setting up a store, buying the other required fixed assets, etc. Central government will provide a revenue subsidy of 15% on Gross profit if the overall cost of capital doesn't exceed 10%.

Apart from above, CFO and his team require an estimate on the additional capital needed based for the smooth running of fixed assets and its daily operations. Based on their market research, they have collected the other information for each store which is as follows-

Average Sales would be ₹ 120 lakhs p.a. with a GP margin of 18%. Customers pay through different digital modes and channels including POS systems (Debit and credit cards) which generally takes approx. 9 days for the funds to get credited in the bank account. 15% of the customers use debit and credit cards to make the payment. Installing a POS system comes with a fee of 2% of total sales through POS.

Being a FMCG outlet, inventories of multiple products need to be kept. Different products have different storage period. However primarily, products are classified into three broad categories, Durable, Semi Durable & Perishable. Perishable products comprise 60% of sales, whereas semi-durable is 25% and balance is for durable products. Inventory storage period for perishable, semi-durable & durable products are 10 days, 30 days & 60 days respectively. Suppliers of these products provide a credit period of average 30 days.

Each store will employ around 20 personnel of a different hierarchy and monthly average salaries to staff for each store is estimated at ₹ 4 lakhs per month. Company will pay employees' dues on the 1st of next month.

Samvar Ltd plans to keep optimum cash balance in hand as suggested by Baumol's model. Excess cash balance if any, will be invested in the marketable securities which will generate a return of 12% p.a. The total disbursement for the year is estimated at ₹ 1.50 lakhs per month with the transaction cost of ₹ 20 per transfer to the disbursement account.

The optimum capital structure with debt equity of 2:1 has been proven ideal for raising the finance and company wishes to follow the same pattern for the additional funds required for each store. Trade credit can also be utilized for financing the expansion needs.

The cost of raising debt and equity for each store is as per the slabs as under:

Project Cost *	**Cost of Debt**	**Minimum rate expected by equity share holders**
Upto 80 lakhs	10%	12.5%
Above 80 lakhs but upto 150 Lakhs	11.5%	13.5%
Above 150 lakhs & Upto 250 lakhs	12%	14%
Above 250 lakhs	13.5%	15%

*It means that upto 80 lakhs of project cost company can raise debt at 10% and equity at 12.5% and so on.

Tax rate applicable to the corporate is 25%

Based on the above details, calculate the following for each store:

1. The optimum Cash balance is

(a) ₹ 7,071

(b) ₹ 26,500

(c) ₹ 7,150

(d) ₹ 24,495

1. Option (d) ₹ 24,495

Reason:

As per William J Baumol,

optimum cash balance = $\sqrt{\dfrac{2\,AT}{O}}$

A = Annual Cash disbursement

T = Cost per transfer

O = Opportunity cost

$$= \sqrt{\frac{2 \text{ X} 18{,}00{,}000 \text{ X } 20}{0.12}} = \textbf{₹ 24,495/-}$$

2. The Gross and Net Working Capital for the next year would be

(a) ₹ 6.7730 L, (5.9396 L)

(b) ₹ 6.7730 L, 12.7125 L

(c) ₹ 200 L, (5.9396L)

(d) ₹ (5.9396 L), 6.7730 L

Option (a) ₹6.7730 L, (5.9396 L)

Reason:

Gross working capital is sum of total current assets and net working capital is Gross working capital less current liabilities.

Estimation of Working Capital Statement

	Amount (₹)	Amount (₹)
A) CURRENT ASSETS / GROSS W.C		
1. FG Inventory **WN - 1**	6,15,000	
2. Trade receivables **WN - 2**	37,800	
3. Cash/ bank balance **(Calculated in Solution 1)**	24,495	**6,77,295**
B) CURRENT LIABILTIES		
1. Trade payables **WN - 3**	8,71,250	
2. Outstanding salaries **WN - 4**	4,00,000	**12,71,250**
NET WORKING CAPITAL (A) - (B)		**(5,93,955)**

WN – 1 Calculation of FG Inventory

FG Inventory $= \text{COGS} \times \dfrac{\text{FG STORAGE PERIOD (DAYS)}}{360}$

COGS = 120 Lakhs x 82% = 98.40 Lakhs

Perishable = 98.40 x 60% x 10 /360 = 1.64 Lakhs

Semi Durable = 98.40 X 25% X 30 /360 = 2.05 Lakhs

Durable = 98.40 X 15% X 60 /360 = 2.46 Lakhs

Total = ₹ 6.15 lakhs

WN – 2 Calculation of Trade Receivables

Since, company is into FMCG industry, sales are always on cash basis as no credit is given to any of the custome₹ However, as mentioned in the case study, company will get the credit in the bank account only after 9 days for those customers that pay through POS (debit and credit cards). It means companies funds' get blocked for 9 days.

Company's trade receivable would only comprise of 15% of total sales as rest are through cash basis

Trade Receivables = Cost of Sales x Days Blocked / 360

= 15.12 L x 9 / 360

= 0.378 Lakhs

Cost of Sales = COGS + POS Transaction fees

= (98.40 L x 0.15) + (120 L x 0.15 x 2%)

= 15.12 Lakhs

WN – 3 Calculation of Trade Payables

Trade Payables = Purchases x Average Credit period in days/ 360

= 104.55 x 30 /360

= 8.7125 Lakhs

Purchases = COGS (+) Closing Stock (-) Opening Stock

Since, company is planning to open up new store, its opening stock would be NIL but there would be definitely a closing FG stock which is calculated in WN -1

Therefore, Purchases = 98.40 L + 6.15 L - 0 = 104.55 Lakhs

WN – 4 Calculation of Outstanding salaries

Salaries are paid on 1st of next month, thereby meaning it has been outstanding for a period of 30 days assuming salaries accruing evenly throughout.

Outstanding salaries = 48,00,000 x 30 / 360 = 4,00,000

3. The amount of total funds needed to setup a store is

(a) ₹ 194.0605 L

(b) ₹ 200 L

(c) ₹ 6.7730 L

(d) ₹ 206.7730 L

Option (a) ₹ 194.0605 L

Reason:

Total Capital needed = Total capital needs (Fixed assets) + Working Capital needs

= 200 L + (5,93,955)

= ₹ 194.0605 L

4. The overall cost of capital for raising additional funds for setting up of each store is

(a) 10.01%

(b) 10.65%

(c) 9.90%

(d) 8.91%

Option (c) 9.90%

Reason:

Samvar Ltd would require financing of ₹ 194.0605 lakhs from debt and equity and not ₹ 200 lakhs as trade credit is also considered to be a source of finance as mentioned in the case study.

Furthermore, the overall cost of raising this additional fund for each store of ₹ 194.0605 needs to be calculated slab wise

Project Cost	Weights (W)	Cost (K)	W X K	Total cost (₹)
Upto 80 Lakhs	Debt = 0.67 Equity = 0.33	Kd = 10 (1 - 0.25) = 7.5 Ke = 12.5	Ko = 9.167%	= 80L x 9.167% **= 7.334 Lakhs**
Above 80 L upto 150 L	Debt = 0.67 Equity = 0.33	Kd = 11.5 (1-0.25) = 8.625 Ke = 13.5	Ko = 10.25%	= 70L x 10.25% **= 7.175 Lakhs**
Above 150 L upto 250 L	Debt = 0.67 Equity = 0.33	K = 12 (1-0.25) = 9 Ke = 14	Ko = 10.667%	=44.0605L x 10.667% **= 4.7Lakhs**

Total Funds = 194.0605 L

Total Cost (₹) = 7.334 L + 7.175 L + 4.700 L = 19.209 L

Ko = Total Cost (₹) / Total Funds

= 19.209 / 194.0605

= 9.90%

5. The amount of revenue subsidy granted by the central govt is

(a) ₹ 3 L

(b) ₹ 3.24 L

(c) Nil

(d) ₹ 2.25 L

Option (b) ₹ 3.24 L

Reason:

Since the Overall Cost of Capital is below 10%, Samvar Ltd is eligible for revenue subsidy

Revenue Subsidy	= GP x 15%
	= 21.6 L x 15%
	= ₹ 3.24 Lakhs

CASE SCENARIO 6

AHF Ltd. is a well-established organization known for its innovative products and services. With a strong financial standing and a commitment to growth, the company is exploring different financing options to fuel its expansion strategies. AHF Ltd. is considering issuing debentures to raise funds for expansion and investment opportunities. The company aims to determine the cost of debt after tax under various scenarios of issuance, considering factors such as issue price and brokerage expenses.

CA Aananda, Chief Financial Officer of AHF Ltd. plans to issue ₹12,00,000, 15% debentures of ₹100 each, redeemable after a fixed period of 10 years. The company operates in a 35% tax bracket, which will impact the cost of debentures after tax.

The cost of debt after tax is calculated by adjusting the coupon rate for tax savings on interest payments. Additionally, brokerage expenses, if applicable, are factored into the analysis to determine the overall cost of debentures.

By analysing the cost of debt under different issuance scenarios, CA Aananda can make informed decisions regarding its financing strategy. Understanding the impact of issue price and brokerage expenses on the cost of debentures enables the company to optimize its capital structure and enhance shareholder value. Continuous evaluation of financing options and market conditions will be essential for AHF Ltd. to maintain financial flexibility and support its long-term growth objectives.

Calculate Cost of Debentures after tax and help CA Aananda, CFO of AHF Ltd. to understand the various scenarios.

1. What will be the cost of debenture if the debentures are issued at par?

(a) 9.25%

(b) 15%

(c) 7.80%

(d) 9.75%

Option (d) 9.75%

Reason:

cost of debenture if the debentures are issued at par.

$$\text{Cost of Debentures}, \mathrm{K}_d = \frac{15(1-0.35)+\frac{(100-100)}{10}}{\frac{(100+100)}{2}}\ x\ 100 = 9.75\%$$

2. What will be the cost of debenture if the debentures are issued at 10% discount?

(a) 10.95%

(b) 11.32%

(c) 8.33%

(d) 10%

Option (b) 11.32%

Reason:

cost of debenture if the debentures are issued at 10% discount.

$$\text{Cost of Debentures, } K_d = \frac{15(1-0.35)+\frac{(100-90)}{10}}{\frac{(100+90)}{2}} \times 100 = 11.32\%$$

3. What will be the cost of debenture if the debentures are issued at 10% premium?

(a) 8.33%

(b) 8.66%

(c) 10.23%

(d) 11.32%

Option (a) 8.33%

Reason:

cost of debenture if the debentures are issued at 10% premium.

$$\text{Cost of Debentures, } K_d = \frac{15(1-0.35)+\frac{(100-110)}{10}}{\frac{(100+110)}{2}}\ x\ 100 = 8.33\%$$

4. What will be the cost of debenture if the brokerage is paid at 2% and redeemed at par?

(a) 8.33%

(b) 15.35%

(c) 10.05%

(d) 9.98%

Option (c) 10.05%

Reason:

cost of debenture if the brokerage is paid at 2% and redeemed at par.

$$\text{Cost of Debentures, } \mathrm{K}_d = \frac{15(1-0.35)+\frac{(100-98)}{10}}{\frac{(100+98)}{2}}\ x\ 100 = 10.05\%$$

5. What will be the cost of debenture if the debenture's current market price is ₹ 120 and are redeemed at par?

(a) 7%

(b) 7.05%

(c) 7.68%

(d) 9.75%

Option (b) 7.05%

Reason:

cost of debenture if the debenture's current market price is ₹120 and are redeemed at par.

$$\text{Cost of Debentures, } K_d = \frac{15(1-0.35)+\frac{(100-120)}{10}}{\frac{(100+120)}{2}} \; x\; 100 = 7.05\%$$

CASE SCENARIO 7

Gearhead Ltd. is a rapidly growing manufacturer of high-end bicycles. They are considering expanding their production capacity to meet rising demand. However, this expansion requires significant investment, and the company's leadership wants to understand the potential impact on profitability. Here's where leverage analysis comes in. Leverage refers to the use of fixed costs to magnify changes in sales. Gearhead Ltd. has two main types of leverage to consider- Degree of Operating Leverage (DOL)- this measures how much a change in sales translates to a change in operating income and Degree of Financial Leverage (DFL)- this measures the impact of debt financing on earnings per share (EPS). The combined effect of DOL and DFL on EPS is considered in Combined Leverage. It reflects the overall risk and potential reward associated with a company's capital structure. The following are some of the information provided by Gearhead Ltd. on the basis of which leverage calculations and analysis can be done:

1. Output (Units) 60,000
2. Fixed costs (₹) 7,000
3. Variable cost per unit (₹) 0.20
4. Interest on borrowed funds (₹) 4,000
5. Selling price per unit (₹) 0.60

The tax rate under which Gearhead Ltd. is presently operating is 35%. With these leverage calculations company can understand that even a small sales changes can significantly boost or drop operating income. Debt financing and its impact can also be understood and how it amplifies both profits and losses. Leverage analysis helps Gearhead Ltd. understand the potential risk associated with increased or reduced debt. Sometimes holistic view of the combined impact of operating and financial leverage on EPS serves an important purpose as well. A high DCL indicates amplified volatility in EPS, meaning small changes in sales or operating income can have a significant effect on shareholder returns. Based on the leverage analysis, Gearhead Ltd. can make informed decisions about their expansion plans. On the basis of DOL, they should be cautious about the potential for profit declines during economic downturns. This might suggest a more conservative expansion strategy. DFL indicates increased risk associated with debt. Gearhead Ltd. needs to weigh the potential benefits of debt financing (lower cost of capital) against the risk of magnified profit fluctuations. Leverage analysis is a powerful tool for businesses like Gearhead Ltd. By understanding the impact of operating and financial leverage, companies can make informed decisions about financing, expansion, and risk management, ultimately aiming for sustainable growth with a healthy balance between profitability and risk. You are required to answer the following MCQs:

1. What will be the total contribution and contribution per unit from the following?

(a) ₹ 34000 and 0.50

(b) ₹ 24000 and 0.40

(c) ₹ 54000 and 0.60

(d) ₹ 84000 and 0.80

2. What will be the Profit before tax (PBT) from the following?

(a) ₹ 13000

(b) ₹ 14000

(c) ₹ 15000

(d) ₹ 16000

3. What will be the Degree of Operating Leverage (DOL) from the following?

(a) 1.41

(b) 1.49

(c) 1.21

(d) 1.30

4. What will be the Degree of Financial Leverage (DFL) from the following?

(a) 1.67

(b) 1.31

(c) 1.21

(d) 1.30

5. What will be the Degree of Combined Leverage (DCL) from the following?

(a) 1.85

(b) 1.49

(c) 1.21

(d) 1.30

1. **Option (b)** ₹ 24000 and 0.40
2. **Option (a)** ₹ 13000
3. **Option (a)** 1.41
4. **Option (b)** 1.31
5. **Option (a)** 1.85

Reason:

Particulars	**Amount ₹**
Selling price p.u.	0.60
Less: Variable cost p.u.	0.20
Contribution p.u.	0.40
Total contribution (0.40 x 60,000)	24,000
Less: FC	7,000
EBIT	17,000
Less: Interest	4,000
Profit before tax	13,000
DOL (24,000/17,000)	1.41
DFL	1.31
DCL	1.85

CASE SCENARIO 8

PetroChem Ltd. is a leading manufacturer of industrial chemicals. The business in the last five years is doing quite well and therefore to maximize the wealth of the shareholders further growth is the need of the hour. The company is considering a significant expansion project to increase production capacity. Investors and creditors are interested in PetroChem's financial health before making investment or loan decisions. The financial analyst of the company believes that ratio analysis can provide valuable insights into this financial health of the company. The following are some information on financial statements and Profit Loss Statements:

Some Financial Statements Informations (in Crore Rupees):

Items	2022-2023	2021-2022
Balance Sheet:		
Current Assets	40	35
Non-Current Assets	100	80
Total Assets	140	115
Current Liabilities	25	20
Long-Term Liabilities	40	30
Total Shareholders' Equity	75	65
Some Income Statement Informations:		
Sales Revenue	120	100
Cost of Goods Sold	60	50
Gross Profit	60	50
Operating Expenses	30	25
Net Income	30	25

The analyst believes that if his team focusses on the following ratios for PetroChem Ltd. for 2022-2023 then the performance can be monitored properly and improvements can be made thus providing confidence for the stakeholders:

The analyst believes that if his team focusses on the following ratios for PetroChem Ltd. for 2022-2023 then the performance can be monitored properly and improvements can be made thus providing confidence for the stakeholders:

- Current Ratio
- Debt-to-Equity Ratio
- Gross Profit Margin
- Operating Profit Margin

Further the company's analyst also believes that based on the ratios, the team can analyze PetroChem Ltd.'s financial health and its ability to handle additional debt for the expansion project.

On the basis of this information provided above you are required to answer the following MCQs:

1. What is the current ratio of 2021- 2022 and 2022- 2023 respectively of PetroChem Ltd. from the following information:

(a) 1.75 and 1.4

(b) 1.75 and 1.6

(c) 1.6 and 1.5

(d) 1.6 and 2

2. What is the position of working capital of PetroChem Ltd. in both the years? What does it indicate?

(a) WC = ₹ 25 Crores for both years shows that changes in current assets was balanced with changes in current liabilities

(b) WC = ₹ 15 Crores for both years shows that changes in current assets was balanced with changes in current liabilities

(c) WC (21-22) = ₹ 18 Crores and WC (22-23) = ₹ 21 Crores shows better WC position

(d) WC = 31 for both years shows reduction in its inventory levels.

3. What is the Gross Profit ratio of 2021- 2022 and 2022- 2023 respectively of PetroChem Ltd. from the following information:

(a) 50% and NIL

(b) 80% and 60%

(c) 50% and 50%

(d) 60% and 55%

4. What is the debt equity ratio of 2021- 2022 and 2022- 2023 respectively of Petro Chem Ltd. from the following information:

(a) 0.769 and 0.867

(b) 0.666 and 0.888

(c) 0.678 and 0.901

(d) 0.456 and 0.234

5. What is the Net Profit ratio of 2021- 2022 and 2022- 2023 respectively of PetroChem Ltd. from the following information:

(a) 50% and NIL

(b) 80% and 60%

(c) 25% and 25%

(d) 80% and 55%

1. **Option (b)** 1.75 and 1.6

2. **Option (b)** WC = ₹ 15 Crores for both years shows that changes in current assets was balanced with changes in current liabilities

3. **Option (c)** 50% and 50%

4. **Option (a)** 0.769 and 0.867

5. **Option (c)** 25% and 25%

Reason:

Ratio	**22-23**	**21-22**
Current Ratio $\frac{\text{Current Asset}}{\text{Current Liability}}$	40/25 =1.6	35/20 = 1.75
Working Capital = CA- CL	40-25 = 15	35-20 =15
Debt Equity	65/75 = 0.867	50/65 = 0.769
GP Ratio	60/120 x100 = 50%	50/100x100 = 50%
NP Ratio	30/120x100 = 25%	25/100x100 = 25%

CASE SCENARIO 9

XYZ Industries Ltd., a renowned player in the manufacturing sector, has been contemplating an ambitious expansion program. To finance this growth, the company scrutinizes its current capital structure, which is a blend of equity, retained earnings, preference shares, and debentures.

The equity base of XYZ Industries Ltd., is robust with 40,000 equity shares valued at ₹ 100 each, amounting to a substantial ₹ 40,00,000. This equity foundation is bolstered by retained earnings of ₹ 10,00,000, reflecting the company's prudent profit reinvestment strategy.

In addition to equity, XYZ Industries Ltd., has diversified its financing through 9% preference shares and 7% debentures, each contributing ₹ 25,00,000 to the capital pool. This strategic mix of debt and equity showcases the company's balanced approach to leveraging and risk management.

The company's capital yields a healthy return rate of 12% on capital employed, indicative of its operational efficiency and market competitiveness. However, it operates in a high-tax environment with an income-tax rate of 50%, which significantly impacts its net earnings and available reinvestment capital.

Faced with the need to raise an additional ₹ 25,00,000 for its expansion program, XYZ Industries Ltd., stands at a crossroads. The decision to fund this venture will require careful consideration of the cost of capital, tax implications, and the impact on shareholder value.

The management must evaluate whether to issue more equity shares, preference shares or debentures. Issuing equity could dilute current shareholders' value but would not increase the company's debt burden. Preference shares offer a fixed return to investors and have priority over equity in profit distribution but come at a higher cost than debt. Debentures are less expensive due to tax-deductible interest expenses but increase financial risk. XYZ Industries Ltd.'s journey towards expansion is not just about raising funds but also about maintaining a delicate balance between growth aspirations and financial stability. The company's choice will set a precedent for its future financial strategies and market reputation.

Faced with the challenge of capital structure decision making to finance the expansion programme the finance manager is considering the following alternatives:

(i) Issue of 20,000 equity shares at a premium of ₹ 25 per share.

(ii) Issue of 10% preference shares.

(iii) Issue of 8% debentures

The manufacturing company has estimated that the PE ratios in the cases of equity preference and debenture financing would be 20, 17 and 16 respectively. You are required to evaluate the various financial alternatives considering three plans proposed i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures).

Based on the information provided above you are required to answer the following MCQ's:

1. What will be the amount of PAT under the three plans i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures) respectively from the following?

(a) ₹ 13,25,000, ₹ 13,25,000 and ₹ 11,25,000

(b) ₹ 8,62,500, ₹ 9,62,500 and ₹ 10,62,500

(c) ₹ 15,00,000, ₹ 15,00,000 and ₹ 15,00,000

(d) ₹ 6,62,500, ₹ 6,62,500 and ₹ 5,62,500

2. What will be the amount of total preference dividend under the three plans i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures) respectively from the following?

(a) ₹ 3,25,000, ₹ 3,25,000 and ₹ 5,25,000

(b) ₹ 8,62,500, ₹ 9,62,500 and ₹ 10,62,500

(c) ₹ 2,25,000, ₹ 4,75,000 and ₹ 2,25,000

(d) ₹ 2,25,000, ₹ 2,25,000 and ₹ 2,25,000

3. What will be the amount of earnings available for equity shareholders under the three plans i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures) respectively from the following?

(a) ₹ 3,47,500, ₹ 5,77,500 and ₹ 3,98,000

(b) ₹ 9,37,500, ₹ 8,87,500 and ₹ 7,37,500

(c) ₹ 4,37,500, ₹ 1,87,500 and ₹ 3,37,500

(d) ₹ 5,37,500, ₹ 2,87,500 and ₹ 4,37,500

4. What will be the EPS under the three plans i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures) respectively from the following?

(a) 4.44, 7.66 and 7.29

(b) 7.00, 6.88 and 7.29

(c) 7.29, 4.69 and 8.44

(d) 8.44, 9.88 and 6.78

5. What will be the market price per share under the three plans i.e. Plan I (Equity), Plan II (Preference Shares) and Plan III (Debentures) respectively from the following?

(a) 134.50, 123.45 and 78.98

(b) 145.80, 79.73 and 135.04

(c) 148.8, 187.96 and 118.48

(d) 168.8, 167.96 and 108.48

1. **Option (d)** ₹ 6,62,500, ₹ 6,62,500 and ₹ 5,62,500
2. **Option (c)** ₹ 2,25,000, ₹ 4,75,000 and ₹ 2,25,000
3. **Option (c)** ₹ 4,37,500, ₹ 1,87,500 and ₹ 3,37,500
4. **Option (c)** 7.29, 4.69 and 8.44
5. **Option (b)** 145.80, 79.73 and 135.04

Reason:

Evaluation of various financial alternatives		Plan I (Equity) (₹)	Plan II (Preference Shares) (₹)	Plan III (Debentures) (₹)
1.	EBIT**	15,00,000	15,00,000	15,00,000
2.	Interest:			
	Existing	1,75,000	1,75,000	1,75,000
	Additional	-	-	2,00,000
	Total Interest	1,75,000	1,75,000	3,75,000
3.	PBT (1-2)	13,25,000	13,25,000	11,25,000
4.	TAX 50%	6,62,500	6,62,500	5,62,500
5.	PAT (3-4)	6,62,500	6,62,500	5,62,500
6.	Preference dividend			
	Existing	2,25,000	2,25,000	2,25,000
	Additional	-	2,50,000	-
	Total Preference Dividend	2,25,000	4,75,000	2,25,000
7.	Equity earnings (5-6)	4,37,500	1,87,500	3,37,500
8.	No. of equity shares	*60,000	40,000	40,000
9.	EPS [7/8]	7.29	4.69	8.44
10.	P/E Ratio (Given)	20	17	16
11.	Market Price per share	145.80	79.73	135.04

*40,000 + 20,000 new shares = 60,000 shares

**EBIT = 12% of (100 lakhs existing + new 25 lakhs) = ₹ 15,00,000

CASE SCENARIO 10

BEST Limited, a prominent company in semi-conductors' industry, aims to understand the impact of operating and combined leverage on its financial performance for the year ended 31st March 2024. By examining the provided financial details, the company seeks to make informed decisions regarding its cost structure and financing mix.

BEST Limited is a well-established firm known for its products in the market. With a focus on innovation and customer satisfaction, the company has achieved significant growth and success over the years.

Financial Analysis: For the financial year ending 31st March 2024, BEST Limited provides the following financial details:

- Fixed Cost (Excluding interest): ₹2,040 Lakhs
- Sales: ₹30,000 Lakhs
- 12% Debentures of ₹100 each: ₹21,250 Lakhs
- Equity Share Capital of ₹10 each: ₹17,000 Lakhs
- Income tax rate: 30%

Mr. Pallav Kumar, an Executive Director from engineering background discussed following analysis with CA Nagarjuna, Additional Director - Finance of the company:

1. Operating Leverage: Operating leverage, which is currently at 1.4, measures the impact of fixed costs on the company's operating income.

2. Combined Leverage: Combined leverage considers both operating and financial leverage. It is calculated as the product of operating leverage and financial leverage. And company's combined leverage is 2.8.

CA Nagarjuna explained to Mr. Pallav that the Finance department is already analysing the various leverages like Operating Leverage, Financial Leverage and Combined Leverage. Due to these, BEST Limited gains insights into its cost structure and financial risk. These information enables the company to make strategic decisions regarding its operating expenses, financing options, and overall business strategy. Continuous monitoring and evaluation of leverage ratios will be essential for BEST Limited to maintain financial stability and drive sustainable growth in the competitive market landscape.

Calculate the ratios to understand the financial health of BEST Ltd and CA Nagarjuna can submit his report to Mr. Pallav Kumar.

1. Calculate the Financial Leverage.

(a) 0.5

(b) 2

(c) 3.92

(d) 4

1. **Option (b)** 2

Reason:

Combined Leverage = Operating Leverage (OL) × Financial Leverage (FL)

$2.8 = 1.4 \times FL$

$FL = 2$

Financial Leverage = 2

2. Calculate the Profit Volume Ratio.

(a) 47.60%

(b) 15.86%

(c) 23.8%

(d) 17.43%

2. **Option (c)** 23.8%

Reason:

$$\text{P/V ratio} = \frac{\text{Contribution (c)}}{\text{Sales (S)}} \times 100$$

$$\text{Operating leverage} = \frac{C}{\text{C-Fixed Cost (FC)}}$$

$$1.4 = \frac{C}{C - 2{,}040}$$

$$1.4\,(C - 2{,}040) = C$$

$$1.4\,C - 2{,}856 = C$$

$$C = \frac{2{,}856}{0.4}$$

$$C = ₹\ 7{,}140 \text{ Lakhs}$$

$$\text{P/V} = \frac{7{,}140}{30{,}000} \times 100 = 23.8\%$$

Therefore, P/V Ratio = 23.8%

3. Calculate the Earnings Per Share.

(a) ₹ 1.5

(b) ₹ 1.05

(c) ₹ 4.2

(d) ₹ 2.1

3. **Option (b)** ₹ 1.05

Reason:

$$EPS = \frac{\text{Profit after tax}}{\text{No. of equity shares}}$$

$$EBT = C - FC - \text{Interest}$$

$$= 7140 - 2{,}040 - 2{,}550$$

$$= ₹\ 2{,}550 \text{ Lakhs}$$

$$PAT = EBT - Tax$$

$$= 2{,}550 - 765 = ₹\ 1{,}785 \text{ Lakhs}$$

$$EPS = \frac{1{,}785}{1{,}700} = 1.05$$

4. Calculate the Asset Turnover ratio of BEST Ltd.

(a) 1

(b) 0.5

(c) 0.784

(d) 1.41

4. Option (c) 0.784

Reason:

$$\text{Assets turnover} = \frac{\text{Sales}}{\text{Total Assets}} = \frac{30,000}{38,250} = 0.784$$

Total Assets = Debt + Equity = ₹ 21,250 Lakhs + ₹ 17,000 Lakhs

= ₹ 38,250 Lakhs

5. Calculate the minimum level of Sales which must be attained to at least pay finance cost of BEST Ltd.

(a) ₹ 19,286 Lakhs

(b) ₹ 8,574 Lakhs

(c) ₹ 24,000 Lakhs

(d) ₹ 27,000 Lakhs

5. Option (a) ₹ 19,286 Lakhs

Reason:

The minimum level of Sales which must be attained to at least pay finance cost of BEST Ltd. EBT zero means 100% reduction in EBT. Since the combined leverage is 2.8, sales will be dropped by 100/2.8=35.714%. Hence new sales will be;

₹ 30,000 Lakhs × (100 – 35.714) = ₹ 19,286 Lakhs.

Therefore, at ₹ 19,286 Lakhs level of sales, the Earnings before Tax of the company will be equal to zero.

THANK YOU