**Financial Management**

**December 2021 Examination**

**1. Given the Earnings before interest and taxes (EBIT) is Rs 30000**

**The interest payment is Rs 10000**

**Dividend on the preference shares Rs9000**

**Taxes being 50% of the profit before taxes (PBT).**

**Number of outstanding equity shares 10000**

**What would be the earning per share (EPS) and degree of financial leverage (DFL),**

**What would be the change in EPS, and DFL, if the EBIT increases to Rs50000 and Rs80000?**

**Note- you have to calculate three EPS and three calculations for DFL (10 Marks) –**

**Introduction**

As the term implies, a company's use of debt in its capital shape offers it economic leverage. A boom in debt inside the capital structure will raise the financial danger since debt comes with interest bills that the company should pay whether or not they are worthwhile. A trademark of how sensitive profits in step with proportion (EPS) are to changes in running income is the quantity of monetary leverage a company has (EBIT). With regards to assessing the economic hazard of an employer's activities, this ratio is critical. While a firm has an excessive stage of Its Half solved only

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**2. Capital budgeting can be described as the mechanism by which businesses determine the purchasing of significant fixed assets such as machinery, equipment, and buildings, as well as the acquisition of other businesses, either through the purchase of equity shares or a group of assets, to conduct ongoing operations. Discuss any five of the basic techniques of capital budgeting (10 Marks)**

**Introduction:**

Determining which proposed purchases of constant property it has to receive and which need to be refused is referred to as capital budgeting. This system is used to generate a quantitative evaluation of each potential investment in fixed assets, providing investors with an excellent basis on which to base their decisions. To position it another manner, if funding in constant property would not work out, the enterprise might move bankrupt. As a result, for huge-scale regular asset proposals, capital budgeting is a have-to-do challenge. Investing minor quantities of

**3.a. An investor expects to receive Rs 572750 at the end of 20 years to keep his retirement life happy. Discuss how much money he should invest in a lump sum to meet his expectation at the given prevailing interest rate of 10% per annum. Discuss the concept of the time value of money you applied here (5 Marks)**

**Introduction:**

According to the Time value of money, an amount of cash is worth greater today than it will likely be at a later point due to the earnings capability it has within the intervening length. This is a basic guideline of monetary planning. An amount of money to your own is worth extra than the equal sum paid within the destiny. Also called the current discounted price, the time cost of cash

**3.b. How much wealth Rs 20000 would produce if it's invested in a fixed deposit for the tenure of 12 years at an interest of 8% per annum. Also, discuss the concept of compounding and calculating the future value of money (5 Marks)**

**Introduction:**

Compounding is the exercise of reinvesting an asset's profits, together with capital gains or interest, intending to produce extra earnings over time. Exponential functions are used to compute this increase, which happens due to the investment receiving interest on each of its