Second Semester MBA June July 2023
Financial Management

Answers

Q.No.1(a) FM: Financial Management means applying management principles to manage the financial resources of an organization. It simply involves planning, organizing, directing, and controlling financial operations to manage the finance of an organization efficiently. Financial Management is a methodology that a business implements to monitor and govern its revenue, expenses, and assets in order to maximize profitability and ensure sustainability. Management of finance is a vital part of every business.

1(b)

Perpetuity
=Rs.20,00,000/0.10
Rs.2,00,00,000 Option (a) is the best.

(c)

Rate	Period	Loan amount	EMI	Interest	Principal	Balance
			₹ -2,98,315.55	₹	₹	₹
0.15	1	1000000	2,98,315.55	1,50,000.00	1,48,315.55	8,51,684.45
		₹ 8,51,684.45	₹ -2,98,315.55	₹ 1,27,752.67	₹ 1,70,562.89	₹ 6,81,121.56
5	2					
		₹ 6,81,121.56	₹ -2,98,315.55	₹ 1,02,168.23	₹ 1,96,147.32	₹ 4,84,974.24
10,00,000	3					
		₹ 4,84,974.24	₹ -2,98,315.55	₹ 72,746.14	₹ 2,25,569.42	₹ 2,59,404.83
0	4					
		₹ 2,59,404.83	₹ -2,98,315.55	₹ 38,910.72	₹ 2,59,404.83	₹ 0.00
0	5					

2(a) Time value of Money : The time value of money (TVM) is the concept that a sum of money is worth more now than the same sum will be at a future date due to its earnings potential in the interim. The time value of money is a core principle of finance. A sum of money in the hand has greater value than the same sum to be paid in the future. The time value of money is also referred to as the present discounted value. Investors prefer to receive money today rather than the same amount of money in the future because a sum of money, once invested, grows over time. For example, money deposited into a savings account earns interest. Over time, the interest is added to the principal, earning more interest. That's the power of compounding interest.

(b) Factors of working capital: Determinants of Working Capital

Some of the major determinants of working capital are discussed below:
A company, as a general policy, wants to hold in balance as small a quantity of working capital as possible so long as undue solvency risks are not imposed on it. This is a logical approach indicating that working capital is a means to an end and not an end in itself. Quantitative amounts of working capital can hardly be set for individual firms. The corporate management has to consider the various factors in making decision regarding balances. An

appraisal of these would provide guidance to management in estimating prospective needs. These are called as determinants of working capital.

1. Nature of business: A company's working capital requirements are basically related to the kinds of business it conducts. Generally speaking, trading and financial firms require relatively large amounts of working capital, public utilities comparatively small amounts, whereas manufacturing concerns stand between these two extremes, their needs depending upon the character of industry of which they are a part.
2. Production policies: Depending upon the kind of items manufactured, a company is able to offset the effect off- seasonal fluctuations upon working capital by adjusting its production schedules. The choice rests between varying output in order to adjust inventories to seasonal requirements and maintaining a steady rate of production and permitting stocks of inventories to build up during off-season periods. It will thus be obvious that a level production plan would involve a higher investment in working capital.
3. Manufacturing process: If the manufacturing process in an industry entails a longer period because of its complex character, more working capital is required to finance that process. The longer it takes to make an approach and the greater its cost, the larger the Inventory tied up In Its manufacture and, therefore, higher the amount of working capital.
4. Turnover of circulating capital: The speed with which the circulating capital completes its round I.e., conversion of cash into inventory of raw material Into Inventory of finished goods. Inventory of finished goods into book debts or accounts receivables and book debt into cash account, plays an Important and decisive role in judging the adequacy of working capital.
5. Growth and expansion of business: As a company grows, it is logical to expect that larger amount of working capital will be required though It Is difficult to draw up firm rules for the relationship between the growth in the volume of a company's business and the growth of its working capital.
6. Business cycle fluctuations: Requirements of working capital of a company vary with the business variation. At a time when the price level comes up and boom condition prevail, the psychology of the management is to pile up a big stock of raw material and other goods likely to be used in the business operations as there is an expectation to take advantage of lower prices. The expansion of business units caused by the inflationary conditions creates demand for more and more capital.
7. Terms of purchase and sales: A business unit, making purchases on credit basis and selling its finished products on cash basis, will require lower amount of working capital, on the contrary, a concern having no credit facilities and at the same time forced to grant credit to its customers may find itself in a tight position.
8. Dividend policy: A desire to maintain an established dividend policy may affect working capital, often changes in working capital bring about an adjustment of dividend policy. The relationship between dividend policy and working capital is well established and very few companies declare a dividend without giving due consideration to its effects on cash and their needs for cash. A shortage of working capital often acts as a powerful reason for reducing or skipping a cash dividend. On the other hand, a strong position may justify continuing dividend payment.
9. Other determinants:

The following are the other determinants of working capital:

- ✓ Absence of co-ordination in production and distribution policies in a company results in a high demand for working capital.

- ✓ The absence of specialisation in the distribution of products may enhance the need of working capital.
- ✓ If the means of transport and communication in a country like India are not well- developed, the industries may face a great demand for working capital in order to maintain big inventory of raw materials and other accessories.
- ✓ The import policy of the Government may also effect the requirement of the working capital for the companies as they have to arrange for funds for imposing the goods at specified times.
- ✓ The hazards and contingencies inherent in a particular type of business decide the magnitude of working capital in terms of keeping liquid resources.

(c) Indian Financial System: Financial Market

A Financial Market is a platform or system where individuals, businesses, and governments can buy and sell various financial instruments such as stocks, bonds, currencies, commodities, and derivatives. It is a mechanism through which participants can trade assets, manage risks, and raise capital.

Types of Financial Markets

There are different types of Financial Market, including:

Financial Market Description

Stock Market Market for buying and selling shares (ownership) of publicly traded companies. Investors can purchase shares to gain ownership and potentially earn returns through capital appreciation and dividends.

Bond Market Market for trading debt securities (bonds) issued by governments, corporations, and municipalities. Investors buy bonds and receive periodic interest payments and the return of principal amount at maturity.

Foreign Exchange Market (Forex) Market for exchanging one currency for another. Participants include individuals, businesses, and financial institutions. Forex trading facilitates international trade and investment, and currency speculation.

Commodity Market Market for buying and selling commodities like gold, oil, agricultural products, and metals. Investors trade commodity contracts, either for immediate delivery or future delivery at a predetermined price.

Derivatives Market Market for financial instruments derived from underlying assets, such as options, futures, and swaps. Derivatives allow investors to speculate on price movements, manage risks, and hedge against potential losses.

Money MarketMarket for short-term borrowing and lending of funds. Participants include banks, corporations, and governments. Money market instruments have high liquidity and short maturities, such as Treasury bills and commercial paper.

Capital Market Market for long-term borrowing and lending of funds. It includes both the stock market and bond market, enabling companies and governments to raise capital for investment and expansion.

Insurance Market Market for insurance policies where individuals or entities transfer risk to insurance companies in exchange for premiums. Insurance markets offer coverage for various risks, including life, health, property, and liability.

Real Estate Market Market for buying, selling, and renting properties such as land, residential homes, and commercial buildings. Real estate markets involve transactions, investments, and the development of physical properties.

Futures Market Market for trading futures contracts that obligate buyers and sellers to transact a specific asset at a predetermined price and date in the future. It allows participants to speculate on price movements and manage risks.

These financial markets serve different purposes and cater to various investment needs and risk profiles. They collectively contribute to the overall functioning and efficiency of the global financial system

Financial Instruments

Cash Instruments

Cash instruments can easily be transferred and valued in the market. Also, market conditions directly influence the value of these financial instruments. The two types of cash instruments are –

Securities: This financial instrument has a monetary value and trade on the stock market. While purchasing security (share), it represents a part of the ownership of a publicly traded company on the stock exchange.

Deposits and Loans: Both are cash instruments because they represent monetary assets and bind both parties in a contractual agreement.

Derivative Instruments

Derivative instruments derive their value from the underlying asset such as resources, currency, bonds, stocks, indices, etc. The performance of derivatives instruments is dependent on the performance of the underlying assets. The following are the most common types of derivative instruments –

Forward: A forward contract is a customized agreement. It is between two parties that involve the exchange of an underlying asset at a specific exchange during a specific time period.

Future: This is a derivative contract that involves the exchange of derivatives on a future date at a predetermined exchange rate.

Options: An option is a derivative contract between two parties. Here, the buyer gets the right to purchase or sell the underlying asset at a predetermined price for a specific time period. However, there is no obligation to exercise the right.

Interest Rate Swap: This is a derivative contract between two parties. It involves the exchange of interest rates where one party agrees to pay the other party's interest rate on their loans in different currencies.

Foreign Exchange Instruments

Foreign exchange instruments are represented in foreign markets and consist of currency agreements and derivatives. These are the most liquidated and most significant markets for trading volume in the world. The trading volume varies in trillions of dollars. Many financial institutions, brokers and banks deal with these instruments as the forex market is open 24 hours a day but closed on holidays.

They are further divided into three categories –

Spot: In this currency agreement the actual exchange of currency is no later than the second working day after the original date of the agreement. This is referred to as 'spot' because the currency exchange is done on the spot (limited timeframe).

Outright Forwards: In this currency agreement, the actual exchange of currency is done 'forwardly' and before the actual date of the agreed requirement. This is beneficial in case of fluctuating exchange rates.

Currency Swap: It refers to the simultaneous buying and selling of currencies with different specified value dates.

Asset Classes of Financial Instruments

The financial instruments can be divided into two asset classes –

Debt-Based: Through these financial instruments a company or entity can use to raise the amount of capital in a business. They come with a fixed maturity period. They enable companies to increase their profitability through capital growth. Some common examples are bonds, debentures, etc.
Cash instruments in the form of loans and exchange-traded derivatives in the form of bond futures are an example of debt-based financial instruments. Monetary instruments like certificates of deposits (CDs) and exchange-traded derivatives like short-term interest rate futures also come under this category.

Equity-Based: These financial instruments serve as legal ownership of a company. Typical examples are stocks, convertible debentures, preferred stock and transferable subscription rights. They help companies to grow over a period of time. Unlike debt, they are not responsible for paying back the holders. Therefore, any company that owns an equity-based instrument can either choose to invest further in the instrument or sell it whenever necessary.

Central Registry of Securitisation Asset Reconstruction and Security Interest of India (CERSAI)

India Infrastructure Finance Company Ltd (IIFCL)

Industrial Finance Corporation of India (IFCI)

National Bank of Financing Infrastructure and Development

National Credit Guarantee Trustee Company Ltd (NCGTC)

National Housing Bank (NHB)

Small Industries Development Bank of India(SIDBI)

Acuite Ratings & Research Limited

Financial institutions are the cornerstone of our economy, offering a multitude of services that enable individuals and businesses to manage their finances. From providing loans and mortgages to facilitating investments and insurance, these institutions play a crucial role in driving economic growth and stability.

With their expertise, resources, and innovative solutions, financial institutions empower individuals to achieve their financial goals and navigate the complexities of the financial world.

Commercial Banks

A commercial bank is a financial institution that accepts money from individuals and businesses and provides loans to those in need. They offer services such as loans, savings, certificates of deposits, bank accounts, bank overdrafts, etc., to their customers. These organizations earn money by granting loans to individuals and gaining interest on loans. Business loans, house loans, personal loans, car loans, and education loans are the different types of loans offered by commercial banks.

Investment Banks

Investment banking helps individuals, organizations, governments, and other institutions raise capital and provide financial consultancy advice. They don’t deal with customer deposits but rather assist with financing through securities such as bonds and stocks.

Insurance Companies

Insurance companies are familiar kinds of non-bank financial institutions. They offer insurance services to both individuals and organizations. The insurance can be related to the protection against financial risk, life insurance, health, home, shop, company, products, vehicles, etc. These institutions put the money from insurance premiums into a pool to fund the policy coverage. Insurance companies can be necessary for the stability of financial systems mainly because they are significant investors in financial markets. As a result of the growing links between insurers and banks, insurers are insuring the risks of households and firms to guarantee their financial stability.

Brokerage Firms

A brokerage firm or company is a middleman who connects the buying and selling parties to facilitate the transaction. They assist in the dealing of securities such as stocks, mutual funds, shares, bonds, options, and other financial instruments. Once the transaction is completed, brokers receive both parties' brokerage (commission). Some brokerage companies also provide financial advice and act as consultants.

3(a) CAPM: This is a popular approach to estimate the cost of equity. According to the CAPM, the cost of equity capital is: Ke = Rf + (Rm - Rf) ß Where: Ke = Cost of equity Rf = Risk-free rate Rm = Equity market required return (expected return on the market portfolio) ß = beta is Systematic Risk Coefficient. Beta is the measure of market risk. Market risk is the risk that cannot be diversified away.

3(b) Pentagon Limited is evaluating a project that has the following cash flow stream associated with it:

Year	0	1	2	3	4	5	6
Cash Flow	-120	-80	20	60	80	100	120

The cost of capital is 15 percent. Find MIRR.

Solution:

The percent value of costs will be:

120 + 80 =189.6

The terminal value of cash inflow is: $20(1.15)^4 + 60(1.15)^3 + 80(1.15)^2 + 100(1.15) + 120$

= 34.98 +91.26 + 105.76 + 115+120 = 467

Therefore,

$189.6 = 467 / (1+MIRR)^6$

$(1+MIRR)^6 = 2.463$

$1+ MIRR = 2.463^{1/6} = 1.162$

MIRR= 1.162 - 1

or 16.2%.

3(c) Dividend Policy:

Profitable Position of the Firm:

Dividend decision depends on the profitable position of the business concern. When the firm earns more profit, they can distribute more dividends to the shareholders.

Uncertainty of Future Income: Future income is a very important factor, which affects the dividend policy. When the shareholder needs regular income, the firm should maintain regular dividend policy.

Contractual constraints: Often, the firm's ability to pay cash dividends is constrained by restrictive provisions in a loan agreement. Generally, these constraints prohibit the payment of cash dividends until a certain level of earnings have been achieved, or they may limit dividends to a certain amount or a percentage of earnings. Constraints on dividends help to protect creditors from losses due to the firm's insolvency. The violation of a contractual constraint is generally grounds for a demand of immediate payment by the funds supplier.

Internal constraints: The firm's ability to pay cash dividends is generally constrained by the amount of excess cash available rather than the level of retained earnings against which to charge them. Although it is possible for a firm to borrow funds to pay dividends, lenders are generally reluctant to make such loans because they produce no tangible or operating benefits

that will help the firm repay the loan. Although the firm may have high earnings, its ability to pay dividends may be constrained by a low level of liquid assets. (Cash and marketable securities) We will take an example that the firm can pay Rs.1, 40,000 in dividends. Suppose that the firm has total liquid assets of Rs.50, 000 (Rs.20, 000 cash +marketable securities worth Rs.30, 000) and Rs.35, 000 of this is needed for operations, the maximum cash dividend the firm can pay is 15,000 (Rs.50, 000 – Rs.35, 000)

Growth prospects: The firm's financial requirements are directly related to the anticipated degree of asset expansion. If the firm is in a growth stage, it may need all its funds to finance capital expenditures. Firms exhibiting little or no growth may never need replace or renew assets. A growth firm is likely to have to depend heavily on internal financing through retained earnings instead of distributing current income as dividends

Owner considerations: In establishing a dividend policy, the firm's primary concern normally would be to maximize shareholder's wealth. One such consideration is then tax status of a firm's owners. Suppose that if a firm has a large percentage of wealthy shareholders who are in a high tax bracket, it may decide to pay out a lower percentage of its earnings to allow the owners to delay the payments of taxes until they sell the stock. Of course, when the equity share is sold, the proceeds are in excess of the original purchase price, the capital gain will be taxed, possible at a more favorable rate than the one applied to ordinary income. Lower-income shareholders, however who need dividend income will prefer a higher payout of earnings. As of now, the dividend income is not taxed in the hands of the shareholders in India. Instead, for paying out such dividends to its shareholders, the company bears the dividend distribution tax.

Market Considerations: The risk-return concept also applies to the firm's dividend policy. A firm where the dividends fluctuate from period to period will be viewed as risky, and investors will require a high rate of return, which will increase the firm's cost of capital. So, the firm's dividend policy also depends on the market's probable response to certain types of policies. Shareholders are believed to value a fixed or increasing level of dividends as opposed to a fluctuating pattern of dividends.

Legal Constraints: The Companies Act 2013 has put several restrictions regarding payments and declaration of dividends. Similarly, Income Tax Act, 1961 also lays down certain restrictions on payment of dividends.

4(a) Operating cycle: It represent cycle during which cash is reconverted in to cash. In a manufacturing process cash is required for purchasing raw material, raw material is converted in work in progress and finished product, and finished product is than sold both in cash & credit. Total number of days to complete this cycle is centered and based on that working capital requirements are assessed.

4(b)

Sales	900000	OL	C/EBIT	1.5
Variable cost	180000	FL	OP/PBT	1.142857143
contribution	720000	CL	C/PBT	1.714285714
EBIT (Profit (C-FC) 240000)	480000		or	1.714285714
Less Interest 60000	60000			
PBT	420000			
Tax @50%	210000			

PAT 210000

4(c)
Pay Back period

CBDT		Depreciation	CB Dep	Tax 50 %	After tax	CBDep & after tax	Cum. Cash flows
	10000	10000	2000	5000	5000	15000	15000
	10692	10000	2069	5346	5346	16038	31038
	12769	10000	2276	6384.5	6384.5	19153.5	50191.5
	13462	10000	2346	6731	6731	20193	70384.5
	20385	10000	3038	10192.5	10192.5	30577.5	100962
						2 years &	189620.990001827
							11.8800219 3

2 years & 11 months

ARR

CBDT	Depreciation	After Dep.	Tax @35%	After dep. After tax
10000	10000	0		0
10692	10000	692	242.2	449.8

			96	
1276		27	9.1	
9	10000	69	5	1799.85
			12	
1346		34	11.	
2	10000	62	7	2250.3
		10	36	
2038		38	34.	
5	10000	5	75	6750.25
				11250.2
				2250.04
				9.00%

NPV

	15000	0.909	13635
10000			13247.39
	16038	0.826	14384.39
10692			14384.39
	19153.5	0.751	14387.28
12769			13791.82
	20193	0.683	13791.82
13462			18988.63
	30577.5	0.621	18988.63
20385			74047.11
			50000
Less Cash outflow			24047.11

NPV>0, can be accepted.

5(a) Financial Engineering: A Financial manager has to keep himself abreast with new techniques of financial analysis and new financial instruments coming in market. In financial engineering, a financial manager has to work on finding out solutions to the problem through complex mathematical models and high speed computer solutions.

5(b)

6500
0.065

6.5%

10% Discount 6500
7.22%

10% Premium 6500
5.91%

5(c)

Year 1		Days	Year 2	Days	
Raw material holding period	360*20000/96000	75	360*27000/135000	72	
Creditors period	360*16000/96000	60	360*18000/135000	48	
Less		**15**		**24**	
WIP holding period	360*14000/140000	**36**	360*18000/180000	**36**	
FG holding period	360*21000/140000	**54**	360*24000/180000	**48**	
Drs Collection period	360*32000/160000	**72**	360*50000/200000	**90**	
Total		**177**		**198**	

6(a) IRR: This method is popularly known as time adjusted rate of return method/discounted rate of return method also. The internal rate of return is defined as the interest rate that equates the present value of expected future receipts to the cost of the investment outlay. This internal rate of return is found by trial and error. First we compute the present value of the cash-flows from an investment, using an arbitrarily elected interest rate. Then we compare the present value so obtained with the investment cost. If the present value is higher than the cost figure, we try a higher rate of interest and go through the procedure again. Conversely, if the present value is lower than the cost, lower the interest rate and repeat the process. The interest rate that brings about this equality is defined as the internal rate of return.

6(b) Role of FM:

1.Continuous focus on margins and ensure that the organisation stays committed to value creation. 2. Work across the functional divide of the company and exhibit leadership skills.
3.Understand what is driving the numbers and provide operation insights, including a sense of external market issues and internal operating trends and become key strategy player.
4. Aware and use the highly innovative financial instruments.
5. Know the emergence of capital market as central stage for raising money.
6. Adding more value to the business through innovations in impacting human capital.
7. Must balance the need to cut overhead with the need to create a finance organisation able to meet long-term goals by---designing financial processes, systems and organise that can support the business in the future and initiating cost reductions that further cut organisational fat, but not operational muscle.

8. Liaison / connection to the financial community, investors and regulators (rating agencies, investment and commercial bankers and peers), which are valuable information sources for strategic and tactical decisions.
9. Assess probable acquisitions, contemplating initial negotiation, carrying out due diligence, communicating to employees and investors about the horizontal integration.
10. Deal with the post-merger integration in the light of people issues.
11. Deal with the new legislation (New Companies Bill, limited liability of Partnership) and regulations merely add more formality and , to an extent , bureaucracy, to what most already subscribe to as best practices in financial reporting.
12. Be one of the undisputed arbiters in matters of financial ethics, with the backing of legislation and stiff penalties.

6(c)

Book value method

Source of capital	W Book value	x Specific cost	xw Total cost
Debt	400000	0.05	20000
Preference	100000	0.08	8000
Equity	600000	0.15	90000
RE	200000	0.13	26000
	1300000		144000

WACC = €XW/W
11.08%

Market value method

Source of capital	W Book value	x Specific cost	xw Total cost
Debt	390000	0.05	19500
Preference	110000	0.08	8800
Equity	900000	0.15	135000
RE	300000	0.13	39000
	1700000		202300

WACC = €XW/W 1.5
11.90%

7(a) Capital Budgeting "Capital budgeting is concerned with the allocation of the firm source financial resources among the available opportunities. The consideration of investment opportunities involves the comparison of the expected future streams of earnings from a project with the immediate and subsequent streams of earning from a project, with the immediate and subsequent streams of expenditure"

7(b) <u>Types of derivatives:</u>

There are four different types of derivatives that can easily be traded in the Indian Stock Market. Each derivative is different from the other and consist of varying contract conditions, risk factor and more.

The four different types of derivatives are as follows:

- Forward Contracts
- Future Contracts
- Options Contracts
- Swap Contracts

Let us have a look and study in-depth detail about these derivatives.

- Forward Contracts

  Forward contracts mean two parties come together and enter into an agreement to buy and sell an underlying asset set at a fixed date and agreed on a price in the future.

  In simpler words, it is an agreement formed between both parties to sell their asset on an agreed future date.

  The forward contracts are customized and have a high tendency of counterparty risk. Since it is a customized contract, the size of the agreement entirely depends on the term of the contract.

  Forward contracts do not require any collateral as they are self-regulated. The settlement of the forward contract gets done on the maturity date, and hence they are reserved by the expiry period.

- Future Contracts

  Future contracts are similar to forward contracts. Future contracts mean an agreement made by the two parties to buy or sell an underlying instrument at a fixed price on a future date.

  Future contracts do not allow the buyer and seller to meet and enter into an agreement. In fact, the deal gets fixed through exchange mode.

  In futures contracts, the counterparty risk is low because it is a standardized contract. In addition, the clearinghouse plays the role of a counterparty to the parties of the contract, which reduces the credit risk in the future.

  The size of future contracts is fixed, and it is regulated by the stock exchange just because it is known as a standardized contract.

  Since these contracts are standard, the futures contracts listed on the stock exchange cannot be changed or modified in any possible way.

  In simpler words, future contracts have pre-decided size, pre-decided expiry period, pre-decided size. In futures contracts, an initial margin is required because settlement and collateral are done daily.

- Options Contracts

  Options contracts are the third type of derivative contracts in India. Options contracts are way different than future and format contracts because these contracts do not require any compulsion to discharge the contract on a specific date.

  Options contracts provide the right but not the commitment to buy or sell an underlying instrument.

  Option contracts consist of two options:

  - Call Option
  - Put Option

  Incall option, the buyer has all the right to purchase an underlying asset at a fixed price while entering the contracts. While input option, the buyer has all the

right but not obligation to sell an underlying asset at a fixed price while entering the contract.

However, in both call and put option contracts, the buyer chooses to settle all the contracts on or before the expiry period.

Thus, anyone who regularly trades in the option contract can take any of the four different positions, i.e., short or long, either in the call or the put option.

These options are traded at the stock exchange and over the counter market.

- Swap Contracts

  Out of all three derivatives contracts, swap contracts are one of the most complex contracts.

  Swap contracts mean the agreement is done privately between both parties. The parties who enter into swap contracts agree to exchange their cash flow in the future as per the pre-determined formula.

  Under swap contracts, the underlying security is the interest rate or currency, as these contracts protect both parties from several major risks.

  These contracts are not traded to the Stock Exchange as investment banker plays the role of a middleman between these contracts.

7(c)

Particulars	1000000 All Equity	1000000 Another All Debentures @8%	500000 Equity 500000 Deb. @10%	500000 Equity 500000 10% Pref. shares
EBIT	480000	480000	480000	480000
Less Interest	0	8000	50000	0
Taxable income	480000	472000	430000	480000
Less Taxes Not mentioned in question	480000	472000	430000	480000
Less Dividend on Pref. shares	0	0	0	5000
Earnings available for Equity shareholders	480000	472000	430000	475000
Number of Equity shares	200000	100000	150000	150000
EPS	2.4	4.72	2.866667	3.16666666

8

Statement showing the working capital needed (in Rs.)

Current assets	
Stock of raw material	640000

WIP 2 weeks		
Raw material	320000	
Direct labour	60000	
Overheads	120000	500000
Stock of finished goods		
Raw material	640000	
Direct labour	240000	
Overheads	480000	1360000
Sundry Debtors		
Raw material	960000	
Direct labour	360000	
Overheads	720000	2040000
Cash at bank		25000
		4565000
Sundry Creditors:	640000	
Wages outstanding	90000	
Lag in payment of overheads	480000	1210000
Net working capital needed		3355000