

FROM : A.K.BANIK: UMESCHANDRA COLLEGE

SUGGESTED NOTES ON FINANCIAL MANAGEMENT: YEAR: 3 SEMESTER VI---2020

UNIT : 6 AND 7----CAPITAL EXPENDITURE DECISIONS (1) AND (2)

1. State the advantages and disadvantages of using 'Pay Back Period' criterion in evaluating Capital Investment decisions.  
SUGGESTED PRACTICAL PROBLEMS: practice the problems on calculation of Pay Back period for mutually exclusive projects where annual cash inflows are uniform.
2. Explain the salient features of the 'Present Value Method' of project evaluation and examine its rationality.  
SUGGESTED PRACTICAL PROBLEMS: practice the problems on calculation of NPV for a project as well as for mutually exclusive projects where PBDTs or EBDTs are given and these are not uniform.
3. Explain with example the term 'profitability Index'. Discuss its usefulness in Investment Decisions. State under what circumstances it is better than NPV --- justify your answer with the help of an example.  
SUGGESTED PRACTICAL PROBLEMS: practice the problems on calculation of NPV, PI (Profitability Index) and Discounted Pay Back Period for a single Project as well as for a mutually exclusive Projects where annual cash inflows are not uniform.
4. What is capital rationing? How is it applied in case of divisible and indivisible projects?  
SUGGESTED PRACTICAL PROBLEMS: practice the problems on determination of feasible combinations of the Projects in Capital Rationing situation.
5. How will you consider accept-reject decision under 'IRR' method in case of evaluation of a proposed project?  
SUGGESTED PRACTICAL PROBLEMS: practice the problems on calculation of IRR (Internal Rate of Return) where annual cash inflows are uniform or equal .