Financial Management – Complete Notes

July 17 As per LU datesheet

M.Com Sem I · LU · MCCC-02 · All 5 Units (Important Topics 2026) · One-file revision of all five units of Financial Management, built around the Important Topics 2026 list. Each unit section covers the ★★★ and ★★ topics with model answers; numericals follow in the solved examples.

Units I–II

- ★ Wealth max.
- ★ TVM
- ★ NPV, IRR, PI

Unit III

- ★ Cost of capital
- ★ WACC
- ★ Walter, Gordon, MM



Unit IV

- ★ Leverages
- ★ EBIT–EPS
- ★ CS theories

Unit V

- ★ WC estimation
- ★ Cash budget
- ★ EOQ, receivables

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Exam date: As per LU datesheet	**Time:** As per LU datesheet	**Duration:** 3 hours	**Paper:** MCCC-02

Exam-hall strategy: Read the whole paper first → start with the question you know best → draw neat, labelled diagrams → box every final answer and formula → keep the last 5 minutes for checking.

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Important Topics 2026 & Expected Questions

Topic list from LUUPDATE's Important Topics 2026 for M.Com Sem I (University of Lucknow, NEP 2025-26). Exam: 10 questions, attempt any 5, 14 marks each (MM 70, 3 hours). ★★★ = must study, ★★ = high chance, ★ = if time permits.

#	Tag	Question / Topic	Unit / Priority
1	★★★	Scope of financial management – traditional vs modern approach; wealth vs profit maximisation	Unit I Must study
2	★★★	Time value of money – compounding and discounting	Unit I Must study
3	★★	Risk and return; financial planning and forecasting	Unit I High chance
4	★★★	Capital budgeting – payback, discounted payback, NPV, IRR, PI (numerical)	Unit II Must study
5	★★	Risk and uncertainty in capital budgeting; capital rationing	Unit II High chance
6	★★★	Cost of capital – debt, preference, equity, retained earnings; WACC (numerical)	Unit III Must study
7	★★★	Dividend models – Walter, Gordon, MM irrelevance (numerical)	Unit III Must study
8	★★★	Factors influencing dividend policy	Unit III Must study
9	★★★	Leverage – operating, financial, combined (numerical)	Unit IV Must study
10	★★★	EBIT-EPS analysis and indifference point (numerical)	Unit IV Must study
11	★★★	Capital structure theories – NI, NOI, traditional, MM; factors	Unit IV Must study
12	★★★	Estimation of working capital (numerical)	Unit V Must study
13	★★★	Cash budget – receipts and payments method; cash management models	Unit V Must study
14	★★★	Inventory management – EOQ, reorder level, safety stock (numerical)	Unit V Must study
15	★★★	Receivables management – evaluation of credit policies (numerical)	Unit V Must study

Also revise: Investment, financing, dividend decisions, FV = PV(1 + r)^n, PV of annuity, expected return, SD, CAPM, percentage-of-sales forecasting.; Payback, ARR, NPV, IRR, PI, MIRR, risk-adjusted discount rate, certainty equivalent, sensitivity, decision tree, divisible/indivisible projects.; Kd = I(1 – t)/NP, Kp, Ke = D1/P0 + g, CAPM, WACC (book vs market weights), relevance vs irrelevance, bird-in-hand, stable dividend, Lintner.; DOL = contribution/EBIT, DFL = EBIT/EBT, DCL = DOL × DFL, indifference point, trading on equity, arbitrage, tax shield, trade-off and pecking order theories.; Gross vs net WC,

Flowcharts & Diagrams — See It at a Glance

→ FLOWCHART: Financial Management Decisions

Investment decision — which assets (capital budgeting, working capital) →

Financing decision — how to fund (debt vs equity mix) →

Dividend decision — distribute or retain →

All aim at maximising shareholders' wealth (share price) →

Supported by liquidity and control decisions

→ FLOWCHART: Capital Budgeting Process

Identify investment opportunities → Screen and evaluate proposals (cash flows) →

Estimate cost of capital / discount rate → Apply techniques (NPV, IRR, PI) →

Select and authorise → Implement and monitor → Post-completion audit

→ FLOWCHART: Computing WACC

Identify sources (equity, preference, debt, retained earnings) →

Compute after-tax specific cost of each → Decide weights (book value or market value) →

Multiply cost × weight → Sum = WACC (minimum required return)

Profit vs Wealth Maximisation

Basis	Profit max.	Wealth max.
Focus	Accounting profit	Market value of shares (NPV)
Time value	Ignored	Considered
Risk	Ignored	Considered
Concept	Vague (which profit?)	Clear (cash flows)
Horizon	Short-term	Long-term
Accepted as	Traditional	Modern objective

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Cost Formulas

Source	Formula
Debt (irredeemable)	$Kd = I\,(1 - t) \div NP$
Debt (redeemable)	$[I(1 - t) + (RV - NP)/n] \div [(RV + NP)/2]$
Preference	$Kp = D \div NP$ (redeemable: similar to debt, no tax)
Equity (dividend growth)	$Ke = D1 \div P0 + g$
Equity (CAPM)	$Ke = Rf + \beta(Rm - Rf)$
Retained earnings	$Kr \approx Ke$ (adjusted for personal tax/brokerage)
WACC	$\Sigma\, w \times k$

Kinds of Working Capital

Basis	Types
Concept	Gross (total current assets) · Net (CA − CL)
Time	Permanent (fixed minimum) · Temporary (seasonal, special)
Financing approach	Matching (hedging) · conservative · aggressive

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Detailed Revision Notes

Unit I – Overview

Scope / Functions ★★★

- Estimating requirement of funds
- Capital structure decisions
- Investment decisions (capital budgeting, working capital)
- Dividend decisions
- Cash and liquidity management
- Financial control and analysis
- Risk management, mergers, corporate restructuring
- Relation with other functions — production, marketing, HR all need funds

Wealth Maximisation & Agency Problem ★★★

- Wealth = present value of expected future benefits discounted at a rate reflecting risk; reflected in market price per share
- NPV-positive decisions increase wealth; considers time value, risk and cash flows
- **Agency problem** — managers may pursue own goals (perks, empire building); controlled by incentive pay (ESOPs), monitoring, independent directors, market for corporate control
- **Stakeholder view** — wealth maximisation within ethical, social and environmental limits (ESG)
- **Role of finance manager (CFO):** treasurer and controller functions; strategic partner; investor relations; compliance

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Time Value of Money ★★★

$FV = PV(1 + r)^n$; $PV = FV/(1 + r)^n$

PV of annuity $= A \times [1 - (1 + r)^{-n}]/r$; FV of annuity $= A \times [(1 + r)^n - 1]/r$

Loan instalment (EMI) = Loan ÷ PVIFA(r, n)

- Reasons: opportunity cost, inflation, risk, preference for present consumption
- Perpetuity PV = A/r; growing perpetuity = $A/(r - g)$
- Effective rate = $(1 + r/m)^m - 1$

Techniques ★★★

- **Compounding** — find future value of present money
- **Discounting** — find present value of future money (basis of NPV)
- **Annuity** — equal periodic payments (ordinary vs annuity due)
- **Perpetuity** — infinite equal payments; growing perpetuity = A ÷ (r − g)
- **Sinking fund** — periodic deposits to accumulate a sum; **loan amortisation** — EMI = loan ÷ PVIFA
- Rule of 72 — years to double ≈ 72 ÷ rate

Return & Risk Measures ★★★

- **Holding period return** = (dividend + price change) ÷ opening price
- **Expected return** = Σ (probability × return)
- **Risk** = variability of returns; measured by **variance/standard deviation**, coefficient of variation (SD ÷ mean)
- **Systematic risk** (market, non-diversifiable — interest rate, inflation) vs **unsystematic risk** (company-specific, diversifiable)
- **Beta** — sensitivity of a security's return to market return

Financial Planning ★★

- Determining objectives, policies, procedures, programmes and budgets for financial activities
- **Objectives:** adequate funds, balance of debt and equity, liquidity, flexibility, minimum cost, growth
- **Considerations:** nature of business, size, future plans, risk, legal limits, market conditions
- **Long-term** (3–5 years: capital expenditure, capital structure) and **short-term** (cash budgets, working capital)

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Unit II – Investment Decision

Capital Budgeting Techniques ★★★

Method	Formula / rule	Merits	Limitations
Payback period	Years to recover cost (cumulative CFAT); accept if ≤ target	Simple, liquidity, risk	Ignores TVM and post-payback flows
ARR	Average PAT ÷ average investment × 100 (avg inv = (cost + scrap)/2)	Uses accounting data, whole life	Ignores TVM; profit not cash
NPV	PV of inflows – PV of outflows; accept if NPV ≥ 0	TVM, wealth maximisation, additive	Needs discount rate; size bias
IRR	Rate at which NPV = 0 (interpolation); accept if IRR ≥ k	TVM, % easy to understand	Multiple IRRs; reinvestment at IRR assumed
PI	PV of inflows ÷ initial outlay; accept if ≥ 1	Capital rationing ranking	Same as NPV issues

Assumptions of NPV: cash flows known with certainty, discount rate (cost of capital) known and constant, intermediate flows reinvested at cost of capital, projects independent. **IRR interpolation:** $L + [NPV_L/(NPV_L - NPV_H)] \times (H - L)$.

Techniques Explained ★★★

- **Payback** — time to recover investment; simple, liquidity focus; ignores time value and later flows
- **ARR** = average annual profit after tax ÷ average investment × 100; uses accounting profits
- **NPV** = PV of inflows – PV of outflows; best theoretical method
- **IRR** — rate where NPV = 0; found by trial and interpolation
- **PI** = PV of inflows ÷ initial outlay; useful in rationing
- **Discounted payback** — payback using discounted flows; **MIRR** — assumes reinvestment at cost of capital

Techniques for Risk ★★★

- **Risk-adjusted discount rate (RADR)** — add risk premium to discount rate
- **Certainty equivalent** — convert risky flows to certain flows (× CE coefficient) and discount at risk-free rate
- **Sensitivity analysis** — effect of change in one variable on NPV
- **Scenario analysis** — best, base, worst cases
- **Probability (expected NPV and SD)**; **decision tree** for sequential decisions
- **Simulation (Monte Carlo)**; shorter payback as conservative approach

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Meaning & Types ★★★

- Situation where the firm has more profitable (NPV > 0) projects than funds available
- **External (hard)** — imperfections in capital markets, borrowing limits
- **Internal (soft)** — management-imposed budget ceilings, divisional limits
- Objective: select combination maximising total NPV within budget

Decision Approach ★★★

- **Divisible projects** — rank by PI; accept in order; fraction of last project
- **Indivisible projects** — evaluate all feasible combinations; choose highest total NPV
- **Multi-period rationing** — linear/integer programming
- Limitations: ignores strategic value, timing, risk differences

Unit III — Cost of Capital & Dividend Decision

Cost of Capital ★★★

Minimum rate of return a firm must earn to maintain the value of its shares — used as discount rate in capital budgeting.

Debt (redeemable): $k_d = [I(1-t) + (RV - NP)/n] \div [(RV + NP)/2]$; irredeemable $k_d = I(1-t)/NP$

Preference: $k_p = [D + (RV - NP)/n] \div [(RV + NP)/2]$; irredeemable $k_p = D/NP$

Equity: $k_e = D_1/P_0 + g$ (dividend growth) or CAPM ; new issue: $D_1/NP + g$; retained earnings $k_r \approx k_e$

$WACC = w_e k_e + w_d k_d + w_p k_p + w_r k_r$

NP = net proceeds after discount and flotation cost. Debt is cheapest (tax shield); equity is costliest (highest risk).

WACC Points ★★★

- **Book value weights** — easy, available; ignore market conditions
- **Market value weights** — theoretically better (reflect current values)
- **Target weights** — planned capital structure
- **Marginal cost of capital** — cost of the next rupee raised; rises at break points
- Debt is cheapest (tax deductible interest, lower risk); equity is most expensive

Walter Model ★★★

$P = [D + (r/k_e)(E - D)] \div k_e$

Assumptions: all financing by retained earnings, r and k_e constant, 100% payout or retention, constant EPS and DPS, infinite life. **Conclusion:** growth firm ($r > k_e$) — zero payout; normal ($r = k_e$) — irrelevant; declining ($r < k_e$) — 100% payout.

Gordon & MM Models ★★★

Gordon: $P_0 = E(1 - b) \div (k_e - br)$; $g = b \times r$

Gordon's assumptions: all-equity firm, no external finance, constant r and k_e, $k_e > g$, perpetual life, no taxes; "bird-in-hand" — investors prefer current dividends (uncertainty rises with time). **Modigliani-Miller (1961):** in perfect capital markets, dividend policy is irrelevant — value depends on earning power of assets. $P_0 = (D_1 + P_1)/(1 + k_e)$. Criticisms: taxes, flotation costs, transaction costs, information content of dividends.

Factors Influencing Dividend Policy ★★★

- **Internal:** earnings and stability, liquidity/cash position, growth and investment needs, cost of external finance, age of company, control considerations
- **External:** shareholders' preference and tax position, legal restrictions (Companies Act s. 123 — dividend out of profits after depreciation; transfer to reserves optional), loan covenants, inflation, capital market conditions, government policy
- **Signalling** — dividend changes convey management's expectations
- **Clientele effect** — investors choose firms matching their dividend preferences

Unit IV — Financing Decision

Meaning of Leverage ★★★

- Use of fixed-cost assets or funds to magnify returns to owners
- **Operating leverage** — from fixed operating costs; high DOL = high business risk
- **Financial leverage (trading on equity)** — from fixed financial charges (interest, preference dividend); favourable when return on assets > cost of debt
- **Combined leverage** — total effect on EPS of change in sales
- High DOL should be balanced with low DFL

EBIT-EPS Analysis ★★★

- Shows effect of different financing plans on EPS at various EBIT levels
- **Indifference point** — EBIT at which EPS is same for two plans: $(X - I1)(1 - t)/N1 = (X - I2)(1 - t)/N2$
- Above it, debt financing gives higher EPS; below it, equity is better
- **Limitations:** ignores risk and cost of equity changes; EPS max ≠ wealth max
- Financial break-even point = interest + preference dividend ÷ (1 − t)

NI, NOI & Traditional ★★★

- **NI approach** — Kd and Ke constant; using cheaper debt lowers Ko → value rises; 100% debt optimal (unrealistic)
- **NOI approach** — Ko constant; Ke rises with debt exactly offsetting cheaper debt; no optimum
- **Traditional approach** — moderate debt lowers Ko initially; beyond a point Ke and Kd rise → optimum range exists
- Formulas: V = S + D; S = (EBIT − I)/Ke (NI); V = EBIT/Ko (NOI)

Modigliani-Miller ★★★

- **MM 1958 (no taxes):** Proposition I — value independent of capital structure (VL = VU); Proposition II — Ke rises linearly with D/E: Ke = Ko + (Ko − Kd)(D/E)
- **Assumptions:** perfect markets, homogeneous risk classes, no taxes, investors can borrow at same rate as firms, 100% payout
- **MM 1963 (with corporate taxes):** interest tax shield → VL = VU + tD → value rises with debt
- **Criticism:** imperfect markets, personal vs corporate leverage differ, transaction costs, bankruptcy costs ignored
- **Modern theories:** trade-off theory (tax benefits vs financial distress costs); pecking order theory (Myers & Majluf, 1984: internal funds → debt → equity); agency cost theory; market timing

Factors Determining Capital Structure ★★★

- Trading on equity and EBIT-EPS effects; cost of capital; cash flow ability to service debt (interest coverage, DSCR)
- Business risk (DOL), nature and size of business, growth and stability of sales
- Control — debt avoids dilution; flexibility and future financing needs
- Market conditions, investor preferences, credit rating
- Legal requirements (SEBI ICDR, RBI, Companies Act), tax rates (interest deductible), lender covenants
- Industry norms and asset structure (tangible assets support debt)

Unit V – Working Capital Management

Working Capital Concepts ★★★

- **Gross WC** = total current assets; **net WC** = CA − CL
- **Permanent (fixed)** vs **temporary (variable/seasonal)** WC
- **Operating cycle** = RM period + WIP period + FG period + debtors period − creditors period
- **Factors:** nature and size of business, production cycle, business cycle, seasonality, credit policy, operating efficiency, growth, price level, dividend policy
- **Risk-return trade-off:** more WC → more liquidity, less profitability
- **Financing policy: matching (hedging)** — permanent needs by long-term funds, temporary by short-term; **conservative** — mostly long-term (low risk, low return); **aggressive** — short-term even for permanent needs (high risk, high return)
- **Sources:** trade credit, bank overdraft/ cash credit, commercial paper, factoring, public deposits

Determinants ★★★

- Nature and size of business (trading/ manufacturing high; utilities low)
- Production cycle length; seasonality
- Credit policy (sales and purchases)
- Business cycle and growth
- Inventory policy and availability of materials
- Operating efficiency; price level changes
- Dividend policy; access to bank credit

Cash Models ★★★

- **Baumol model** (inventory approach): optimum cash $C = \sqrt{(2bT \div i)}$ where T = annual cash need, b = cost per conversion, i = interest rate
- **Miller–Orr model** — random cash flows; upper limit, lower limit and return point; spread = 3 × (3/4 × b × variance ÷ i)^(1/3)
- Float management — accelerate collections, control disbursements

Inventory Management ★★★

- **Objectives:** uninterrupted production, minimum investment and costs, avoid stock-outs and obsolescence
- **Costs:** ordering costs, carrying costs, stock-out costs
- **Techniques:** EOQ, stock levels, **ABC analysis** (A: ~10% items, ~70% value — strict control), VED, FSN, JIT, perpetual inventory, inventory turnover ratio

Receivables Management ★★★

- **Objective:** optimum trade-off between extra sales/profit and costs (capital, collection, bad debts, admin)
- **Credit policy variables:** credit standards (5 Cs — character, capacity, capital, collateral, conditions), credit period, cash discount, collection policy
- **Monitoring:** average collection period, ageing schedule, debtors turnover
- **Tools:** factoring, forfaiting (exports), credit insurance, TReDS; MSMED Act requires payment to MSE suppliers within 45 days

Solved Numericals & Illustrations (all units)

Illustration 1 — TVM

FV of ₹10,000 at 10% for 3 years = 10,000 × 1.331 = **₹13,310**. PV of ₹50,000 after 5 years at 10% = 50,000 × 0.6209 = **₹31,046**. PV of ₹10,000 per year for 5 years at 10% = 10,000 × 3.7908 = **₹37,908**. Perpetuity of ₹5,000 at 10% = **₹50,000**.

Illustration 2 — Expected Return & Risk

Probabilities 0.3, 0.5, 0.2 with returns 20%, 12%, −5%. Expected return = 6 + 6 − 1 = **11%**. Variance = 0.3(81) + 0.5(1) + 0.2(256) = 76 → **SD ≈ 8.72%**. CV = 0.79.

Illustration 1 — All Techniques

Cost ₹1,00,000; cash inflows ₹30,000, ₹40,000, ₹50,000, ₹20,000; cost of capital 10%.

Year	Inflow	DF @10%	PV	Cumulative PV
1	30,000	0.909	27,273	−72,727
2	40,000	0.826	33,058	−39,669
3	50,000	0.751	37,566	−2,104
4	20,000	0.683	13,660	+11,557

NPV = ₹11,557 → accept. **PI = 1.116**. **Payback** = 2 + 30,000/50,000 = **2.6 years**. **Discounted payback** = 3 + 2,104/13,660 = **3.15 years**. **IRR ≈ 15.3%** (> 10%).

Illustration 2 — Capital Rationing (budget ₹ 3,00,000)

Project	Cost	NPV	PI
A	1,00,000	20,000	1.20
B	2,00,000	30,000	1.15
C	1,50,000	33,000	1.22
D	1,00,000	12,000	1.12

Divisible: C (1.5L) → A (1L) → ¼ of B (0.5L, NPV 7,500) → total NPV **₹60,500**.
Indivisible: feasible sets — A + B ₹50,000; A + C ₹53,000; C + D ₹45,000; B + D ₹42,000 → choose **A + C (₹53,000)**.

Illustration 1 — Specific Costs

10% debentures issued at par, tax 25% → Kd = 10 × 0.75 = **7.5%**; issued at ₹95 → 10 × 0.75 ÷ 95 = **7.89%**. Equity: D1 ₹5, P0 ₹50, g 5% → Ke = 0.10 + 0.05 = **15%**. CAPM: Rf 7%, β 1.2, Rm 13% → **14.2%**.

Illustration 2 — WACC

Equity ₹6 lakh @ 15%; debt ₹4 lakh @ 7.5%. WACC = (6 × 15 + 4 × 7.5) ÷ 10 = (90 + 30) ÷ 10 = **12%**.

Illustration 3 – Walter & Gordon

EPS ₹10; r = 15%; k = 12%. **Walter** (D = ₹4): P = [4 + (0.15/0.12)(6)] ÷ 0.12 = (4 + 7.5) ÷ 0.12 = **₹95.83**. With D = 0: P = 12.5/0.12 = ₹104.17 (higher) — growth firm should retain. **Gordon** (retention b = 60%, g = br = 9%): P = 10 × 0.4 ÷ (0.12 − 0.09) = **₹133.33**.

Illustration 1 – Leverages

Sales ₹10,00,000; variable cost ₹6,00,000; fixed cost ₹2,00,000; interest ₹1,00,000. Contribution 4,00,000; EBIT 2,00,000; EBT 1,00,000. **DOL = 2**; **DFL = 2**; **DCL = 4** → a 10% rise in sales raises EPS by 40%.

Illustration 2 – Indifference Point

Need ₹10 lakh. Plan A: equity 1,00,000 shares of ₹10. Plan B: 50,000 shares + ₹5 lakh 10% debt (interest ₹50,000). Tax 25%. X × 0.75/1,00,000 = (X − 50,000) × 0.75/50,000 → X = **₹1,00,000**; EPS = ₹0.75 under both. At EBIT ₹2,00,000: A = ₹1.50, B = ₹2.25.

Illustration 3 – NI vs NOI

EBIT ₹1,00,000; debt ₹4,00,000 @ 10%. **NI** (Ke 12.5%): S = (1,00,000 − 40,000)/0.125 = 4,80,000; V = 8,80,000; Ko = 11.36%. **NOI** (Ko 12.5%): V = 8,00,000; S = 4,00,000; Ke = 60,000/4,00,000 = 15%.

Illustration 1 – Working Capital Estimation

Annual output and sales 12,000 units (1,000 per month). Cost per unit: material ₹40, labour ₹20, overheads ₹20 (total ₹80); price ₹100. RM in stock 1 month; WIP ½ month (material full, labour and overheads 50% complete); FG 1 month; debtors 2 months (at cost); creditors 1 month; wages paid ½ month in arrears.

Item	Working	₹
Raw materials	1,000 × 40	40,000
WIP	500 × (40 + 10 + 10)	30,000
Finished goods	1,000 × 80	80,000
Debtors (cost)	2,000 × 80	1,60,000
Current assets		**3,10,000**
Less creditors	1,000 × 40	(40,000)
Less wages outstanding	500 × 20	(10,000)
Net WC	+ 10% contingency 26,000	**2,86,000**

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Illustration 2 – EOQ

Annual demand 24,000 units; ordering cost ₹200; carrying cost ₹2 per unit p.a. EOQ = √(2 × 24,000 × 200 ÷ 2) = **2,191 units** (≈ 11 orders a year).

Illustration 3 – Baumol

Annual cash need ₹12,00,000; cost per conversion ₹100; interest 10%. C = √(2 × 100 × 12,00,000 ÷ 0.10) = **₹48,990**.

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Practice Set with Answers

Cover the answer column, try each question yourself, then check.

#	Question	Answer
1	Modern objective of FM?	Wealth maximisation.
2	Three finance decisions?	Investment, financing, dividend.
3	Profit max ignores?	Time value and risk.
4	NPV accept rule?	NPV > 0.
5	IRR?	Rate where NPV = 0.
6	PI accept?	PI > 1.
7	Cost of capital?	Minimum required return.
8	Kd formula?	I(1 − t)/NP.
9	Ke growth model?	D1/P0 + g.
10	DOL?	Contribution ÷ EBIT.
11	DFL?	EBIT ÷ EBT.
12	DCL?	DOL × DFL.
13	Gross WC?	Total current assets.
14	Net WC?	CA − CL.
15	Permanent WC financed by?	Long-term funds.

Common Mistakes to Avoid

- Profit max as modern goal
- No formulas for TVM
- Using profits instead of cash flows
- Including sunk costs
- Forgetting tax on Kd
- Tax on preference cost
- DFL using EAT
- Interest not deducted in EPS
- Debtors at sales when cost asked
- WIP at full cost

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Answer Plans — What to Write for Each Question

Q. Nature & scope
Meaning → approaches → decisions.

Q. Objectives
Profit vs wealth → agency.

Q. Capital budgeting meaning
Meaning → importance → process.

Q. Techniques
Each with formula, merit, limit.

Q. Cost of capital
Meaning → significance → types.

Q. Specific costs
Formulas → numericals.

Q. Leverage
Types → formulas → numerical.

Q. EBIT-EPS
Steps → indifference → limits.

Last-Minute Sheet — All Units

FM	Investment · financing · dividend · wealth maximisation · agency
TVM	$FV = PV(1 + r)^n$ · $PV = FV/(1 + r)^n$ · $PVA = A[1 - (1 + r)^{-n}]/r$ · perpetuity A/r
Techniques	Payback · ARR · NPV > 0 · IRR > k · PI > 1 · discounted payback · MIRR
Illustration	NPV ₹11,557 · PI 1.116 · payback 2.6 yrs · IRR ≈ 15.3%
Costs	$Kd = I(1 - t)/NP$ · $Kp = D/NP$ · $Ke = D1/P0 + g$ or CAPM · WACC = Σwk
Walter	$P = [D + (r/k)(E - D)]/k$ · r > k retain
Leverage	DOL = C/EBIT · DFL = EBIT/EBT · DCL = C/EBT
EBIT-EPS	$(X - I1)(1 - t)/N1 = (X - I2)(1 - t)/N2$
WC	Gross/net · permanent/temporary · operating cycle · matching/ conservative/aggressive
Estimation	RM + WIP + FG + debtors (cost) − creditors − O/S wages + contingency

Before you enter the exam hall: revise the mind map, the flowcharts and the formula sheet once more. Read the paper fully, draw labelled diagrams, box your answers, and keep 5 minutes for checking. **You have prepared well. All the best!** Team LUUPDATE

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