(PART-B : Descriptive)

Time : 2 hrs. 40 min. **Marks : 50**

[Answer question no.1 & any four (4) from the rest]

1. Describe the prominent areas of financial decision-making. 10
2. What is capital budgeting? Why is it significant for a firm? 2+8=10
3. What is meant by cost of capital? Explain the significance of cost of capital. 2+8=10
4. What is capital structure? Explain the important factors that should be considered while determining capital structure. 2+8 =10
5. What do you mean by dividend policy? Explain critically the Walter's Model of dividend policy. 3+7=10
6. From the following information, calculate the Net Present Value of the two projects and suggest which of the two projects should be accepted at a discount rate of 10 percent. 5+5=10

	Project X	Project Y
Initial investment	Rs. 20,000	Rs. 30,000
Estimated Life	5 years	5 years

The profits before depreciation and after tax are as follows:

Year	1	2	3	4	5
Project X (Rs.)	5,000	10,000	10,000	3,000	2,000
Project Y (Rs.)	20,000	10,000	5,000	3,000	2,000

Present value of Re.1 to be received at the end of each year at 10% is given below:

Year	1	2	3	4	5	6	7	8	9	10
P.V.	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386

7. (a) XYZ Co. has plans to issue 10,000, 11% debentures of Rs. 100 each at a discount of 5%. The debentures are redeemable after 4 years. Calculate the after tax cost of the debt, if the tax rate is assumed as 50%. 5

   (b) A firm has the following capital structure, and after the costs for the different sources of funds used: 5

Sources of funds	Amount Rs.	After-tax cost %
Debt	20,00,000	4
Preference shares	10,00,000	9
Equity shares	30,00,000	11
Retained earnings	40,00,000	10
	100,00,000	

Compute the weighted cost of capital.

8. Prepare an estimate of working capital requirements from the following information of a trading concern: 10

(i) Projected Annual sales	1,00,000 units
(ii) Selling Price	Rs.10 per unit
(iii) Percentage of Net Profit on Sales	25%
(iv) Average Credit period allowed to Customers	10 weeks
(v) Average Credit period allowed by Suppliers	5 weeks
(vi) Average Stock Holding in terms of Sales Requirements	10 weeks
(vii) Allow 10% for Contingencies	

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REV-00
MCM/03/08 2018/06

MASTER of COMMERCE
SECOND SEMESTER
FINANCIAL MANAGEMENT
MCM-202 (REPEAT)

(Use separate answer scripts for Objective & Descriptive)

Duration : 3 hrs. **Full Marks : 70**

(PART-A : Objective)

Time : 20 min. **Marks : 20**

Choose the correct answer from the following: ***1×20=20***

1. The goal of wealth maximization takes into consideration
   a. Risk related to uncertainty of returns b. Timing of expected returns
   c. Amount of returns expected d. All of the above

2. Finance function involves
   a. Procurement of finance only
   b. Expenditure of funds only
   c. Procurement and effective utilization of funds
   d. Safe custody of funds only

3. Profit is maximized when:
   a. Cost is minimized b. Revenue is maximized
   c. Average Revenue=Marginal Revenue d. Marginal revenue = Marginal cost

4. Wealth maximization objective stands for:
   a. maximizing earnings per share
   b. maximizing value of debt instruments
   c. maximizing market value of equity shares
   d. None of the above

5. Cost of capital means
   a. The minimum rate of return that a firm must earn on its investment
   b. The present value of a past investment
   c. The expected cash inflows
   d. None of the above

6. Which among these is not a specific cost?
   a. Cost of debt b. Cost of retained earnings
   c. Cost of an asset d. None of the above

7. Given: risk free rate of return=15%, market return=20% and value of beta=1.5. What is the expected rate of return?
   a. 22.5 b. 23.5
   c. 24.5 d. None of the above

8. Capital structure can be classified according to:
   a. Nature, and sources b. Ownership and creditorship
   c. Cost behaviour d. All of the above

9. The Net Income approach was suggested by
   a. Modigliani-Mill b. Ezra Solomon
   c. Durand d. Walter

10. Capital structure denotes the
   a. Capital mix b. Financing mix
   c. Equity mix d. Debt mix

11. Which of the following is not a fundamental assumption made by Modigliani and Miller?
   a. No taxes
   b. There is imperfect information
   c. Firm can be classified into distinct risk classes
   d. None of the above

12. A stable dividend policy refers to
   a. The consistency or lack of variability in the stream of dividends
   b. Same dividend to be paid every year
   c. Shareholder's wishes regarding dividends
   d. None of the above

13. Capital budgeting is also known as
   a. Investment decision making b. Capital expenditure decision
   c. Planning capital expenditure d. All of the above

14. Discounted cash flow techniques involves
   a. Net present value b. Payback method
   c. Accounting Rate of Return d. None of the above

15. The difference between the total present value of a stream of cash flows at a given rate of discount and the initial capital outlay is known as the:
   a. Net Profit b. Capital value
   c. Net present value d. None of the above

16. Working capital management is concerned with the problems that arise in attempting to manage
   a. Fixed assets and current liabilities
   b. Current assets, current liabilities and interrelationship between them
   c. Fixed assets and fixed liabilities
   d. Current assets and fixed liabilities

17. Cash discount to customers is allowed to
   a. Speed up collection b. Speed up sales
   c. Maximize level of average debtors d. Minimize bad debts

Contd...

18. Total of all current assets is
   a. Gross working capital b. Net working capital
   c. Fixed working capital d. None of the above

19. The size or level of debtors is not influenced by:
   a. Levels of sales b. Collection Policy
   c. Number of employees in the credit and collection department d. None of the above

20. Which one of the following points is not merits of payback period method?
   a. Easy to understand b. Emphasizes liquidly
   c. Uses cash flow information d. Not a measure of probability

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P.T.O.