[PART-B : Descriptive]

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

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

1. Describe the wealth maximization and profit maximization objective of Financial management. 10

2. Meghalaya crop Ltd is considering two projects, only one of which can be accepted. The data in respect of these two are given as below. 5+5=10

		Project I (Rs)	Project II(Rs)
Outlay at t=0		10,000	50,000
Net inflows	t=1	5,000	10,000
	t=2	5,000	15,000
	t=3	3,000	25,000
	t=4	2,000	25,000
	t=5	1,500	21,000

Calculate:
i) Payback period and
ii) Present value at 10%

3. Describe EBIT and EPS analysis in respect of capital structure decision. 5+5=10

4. Describe the factors considered for the dividend policy of the companies? 10

5. State the methods of inventory control for a manufacturing entity 5+5=10

6. Describe the technique of working capital management. And also you are required to estimate the working capital requirement of the borrowers from the following information. 5+5=10

i) Expected level of production 1,20,000 units
ii) Raw materials to remain in stock on an average 2 months
iii) Processing period for each unit of production 1 month
iv) Finished goods remain in stock on average 3 months.
v) Credit allowed to the customers from the date of dispatch 3 months
Vi) Expected ratio of cost to selling price :
a) Raw materials- 60%
b) Direct wages -10%
c) Overheads -20%

Vii) Selling Price Per Unit Rs. 10
Viii) Expected Margin on sale 10%

7. Discuss the finance function discharged by a finance manager? 10

8. Discuss the steps involved in capital budgeting process 10

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MASTER of COMMERCE
SECOND SEMESTER
FINANCIAL MANAGEMENT & CONTROL
MCM-203

(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. Under the CAPM, generally the beta of debt will conform to which of the following
   a. Lower than the beta of equity
   b. Higher than the beta of equity
   c. Lower in both debt and equity
   d. No effect on both debt and equity, but will not affect the earnings

2. CAPM method of alternative approach for the calculation of the cost of equity has been developed by
   a. William Sharpe in 1964
   b. Modigliani and Miller
   c. Trueblood and Sharpe
   d. Joseph Scumpter.

3. Equity capital, according to economist :
   a. Does not involve any cost
   b. It entails normal money cost in calculating cost of capital
   c. Has a opportunity cost
   d. All of the above.

4. Tandon committee, chore committee, Dehejia committee relate to which one of the following:
   a. Inventory management
   b. Working capital management
   c. Cost of equity capital
   d. Dividend policy

5. View from all investor point of view, the firm cost of capital pertains to which
   a. Is the rate of return required by them for supplying capital for financing the firm's investment projects by purchasing securities
   b. Is the rate of return required to surpass the rate of dividend
   c. Return on cost of capital is always higher than the EPS
   d. EPS is higher than the PE ratio

6. Leverage ratio implies which one of the following:
   a. Ability to use more of debt capital than equity capital
   b. Use of more of fixed interest bearing securities than equity capital
   c. Thin equity, thicker debt
   d. All of the above.

7. The internal rate of return (IRR) is a discounted cash flow technique which
   a. Assign priority on earnings before taxes
   b. Considers the magnitude of and timing of the investment outlay and EPS
   c. Considers the magnitude of and timing of cash flows.
   d. Assigns priority to opportunity cost of debt capital and dividend payout.

8. The opportunity cost:
   a. Is the rate of return of foregone on the next best alternative investment opportunity of comparable risk.
   b. Is the rate of return foregone on the next immediate second alternative investment opportunity of non-comparable risk.
   c. Is the minimum cost of equity foregone but removed by high earnings
   d. All of the above

9. NPV method is
   a. Always inconsistent with the objective of the profit maximization for shareholder.
   b. Always ensures maximization dividend payout for shareholders
   c. Always consistent with the objective of the shareholder value maximization
   d. Ensures interest income and commission for long term debt security holders.

10. NPV is found out:
   a. By subtracting investment outlay from the present value of estimate project Cost.
   b. By subtracting cash out flows from cash inflows
   c. By subtracting present value of cash out flows from present value of cash inflows.
   d. By subtracting present value of cash inflows from present value of cash outflows.

11. Payback period of a project is estimated:
   a. $\text{Payback} = \dfrac{\text{Annual cash inflows}}{\text{Initial investment}}$
   b. Payback = **Initial** Investment/ Annual cash inflow
   c. Payback= number of years required to recover original cash outlay.
   d. Both (b) and (c)

12. Accounting rate of return(ARR) is measured by:
   a. $\text{ARR} = \dfrac{\text{Average Income}}{\text{Average investment}}$
   b. $\text{ARR} = \dfrac{\text{Average Investment}}{\text{Average Income}}$
   c. ARR= the number of periods taken in recovering the investment outlay on the present value basis
   d. Both (b) and (C)

13. Modified internal rate of return (MIRR) is
   a. The compound average annual rate that is calculated with a reinvestment rate different than the project's IRR
   b. The compound average annual rate that is calculated with discounted cash flow of the project

Contd....

   c. The weighted average annual rate that is calculated with the present value of cash inflows
   d. The difference between present value of cash inflow and cash out flow during the currency of the project

14. Cash flows can be categorized into which one of the following
   a. Operating cash flow only
   b. Non- operating cash flow only
   c. Operating plus non- operating and financial flow
   d. All of the above.

15. Debt servicing coverage ratio can be computed by which of the following
   a. $\dfrac{\text{Net operating cash flow}}{\text{Fixed interest bearing securities}}$
   b. $\dfrac{\text{Non-operating earning}}{\text{Fixed financial obligation}}$
   c. $\dfrac{\text{Financial Flows}}{\text{NCLs}}$
   d. Net operating plus non operating cash flow/ Fixed Financial obligation

16. The use of CAPM model requires which of the following information:
   a. The expected risk free rate of return
   b. The expected risk of premium
   c. Beta of Co's returns
   d. All of the above

17. Weighted average cost of capital (WACC), calculated using the book value weights will be impacted by which of the following
   a. It will be understated if the market value of the share is higher than the book value.
   b. It will be overstated if the market value of the share is higher than the book value.
   c. It will be overstated if the market value of share is lower than the book value
   d. There will be no change or impact on WACC.

18. Which of the following is correct
   a. Liquidity ratio measures long term solvency of a concern
   b. Inventory is a part of liquidity assets.
   c. Rule of thumb for acid test ratio is 0.5:1
   d. The amount of gross assets is equal to net capital employed

19. Discounted cash flow criteria for investment appraisal does not include
   a. Net present value
   b. Benefit cost ratio
   c. Accounting rate of return
   d. Internal rate of return

20. Dividend is the portion of
   a. Current Assets of the company
   b. Debt
   c. Assets of the Company
   d. Profits.

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P.T.O.