MASTER OF COMMERCE
SECOND SEMESTER
FINANCIAL MANAGEMENT & CONTROL
MCM – 201

SET A

[USE OMR SHEET FOR OBJECTIVE PART]

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

(Objective)

Time: 30 mins. **Marks: 20**

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

1. Which of the following is not an element of financial management?
   a. Allocation of resources
   b. Financial decision making
   c. Financial control
   d. Financial planning

2. How to achieve wealth maximization?
   a. Avoid high level of risks
   b. Reduction in cost
   c. Pay dividends
   d. All of the above

3. Which of the following formulas correctly represents Economic Value Added (EVA)?
   a. EVA = Net Profit - Operating Expenses
   b. EVA = Net Operating Profit After Taxes (NOPAT) - (Capital × Cost of Capital)
   c. EVA = Gross Profit - Interest Expense
   d. EVA = Earnings Before Tax - Depreciation

4. What does the Time Value of Money principle state?
   a. Money is worth the same regardless of time
   b. A dollar in the future is worth more than a dollar today
   c. A dollar today is worth more than a dollar in the future
   d. Time and money are unrelated concepts

5. What is Capital Budgeting?
   a. Planning for day-to-day expenses
   b. The process of managing short-term investments
   c. The process of evaluating and selecting long-term investment projects
   d. Preparing the annual operating budget

6. A mutually exclusive decision means:
   a. Accepting of an alternative, leads to rejecting of other
   b. Accepting of both alternatives
   c. Rejecting of both alternatives
   d. Both b & c

7. Which of the following is not a method of capital budgeting?
   a. Net Present Value (NPV)
   b. Internal Rate of Return (IRR)
   c. Payback Period
   d. Gross Profit Margin

8. .... is defined as the length of time required to recover the initial cash outlay.
   a. Pay-back period
   b. Average collection period
   c. Average payment period
   d. Inventory conversion period

9. Given a risk-free rate of 15%, a market return of 20%, and a beta of 1.5, what is the expected rate of return according to the CAPM model?
   a. 21.5
   b. 22.5
   c. 23.5
   d. None of the above

10. ....is the cost of the opportunity foregone in to take up a particular project.
   a. Specific cost
   b. Explicit cost
   c. Implicit cost
   d. Composite cost

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

12. The Net Operating Income approach was suggested by:
   a. Modigliani and Miller
   b. Ezra Solomon
   c. Durand
   d. Walter

13. ....dividend means the issue of bonus shares to the existing shareholder.
   a. Cash
   b. Stock
   c. Scrip
   d. Property

14. According to Walter, the dividend pay-out does not affect the price of the shares if:
   a. $r=k$
   b. $r>k$
   c. $r<k$
   d. None of the above

15. What does the dividend payout ratio measure?
   a. The percentage of revenue paid as dividends
   b. The portion of earnings paid out as dividends
   c. The amount of debt paid using profits
   d. The retained earnings as a percentage of total equity

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

17. Which of the following is not a component of working capital?
   a. Inventory
   b. Accounts receivable
   c. Accounts payable
   d. Machinery

18. Which is not the long-term source of working capital?
   a. retained earnings
   b. issue of shares
   c. provision for taxation
   d. long-term debts

19. Increasing the credit period from 30 to 60 days, in response to a similar action taken by all of our competitors, would likely result in:
   a. a decrease in bad debt losses
   b. an increase in the average collection period
   c. an increase in sales
   d. higher profits

20. The.....................motive refers to the cash required by a firm to meet the day to day needs of its business operations.

a. Transaction
b. Precautionary
c. Speculative
d. Compensating

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Descriptive

Time : 2 Hr. 30 Mins. Marks : 50

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

1. Compare and contrast profit maximization and wealth maximization as objectives of financial management. 10

2. Critically explain the Net Income approach to capital structure. 10

3. What is meant by a company's dividend policy? Explain the various factors that influence a company's dividend decisions. 2+8=10

4. Define receivables. Explain the key factors that determine the size of a company's receivables. 2+8=10

5. A project costs Rs. 30,000 and has a scrap value of Rs. 5,000 after 5 years. The net profits before depreciation and taxes for the five years period are expected to be Rs.6,000, Rs. 7,000, Rs. 8,000, Rs.9,000 and Rs 10,000 You are required to calculate the accounting rate of return (on average investments) assuming 50% rate of tax and depreciation on straight line method. 10

6. From the following information, calculate the net present value of the two projects at discount rate of 10 per cent. 5+5=10

	Project X	Project Y
Initial Investment	Rs.20,000	Rs.30,000
Estimated Life	5 years	5 years
Scrap Value	Rs.2,000	Rs.2,000

The profits before depreciation and after taxes (cash flows) are as follows:

	Year 1 Rs.	Year 2 Rs.	Year 3 Rs.	Year 4Rs.	Year 5 Rs.
Project X	5,000	10,000	8,000	5,000	2,000
Project Y	18,000	12,000	5,000	5,000	3,000

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
Present Value	0.909	0.826	0.751	0.683	0.621

7. a) A 5 year debenture of a firm can be sold for a net price of Rs.97. The coupon rate of interest is14% per annum and the debenture will be redeemed at 10% premium on maturity. The firm's tax rate is 40%. Compute the cost of debenture. 5+5=10

b) A company plans to issue 1000 new shares of Rs.100 each at par. The floatation costs are expected to be 5% of the share price. The company pays a dividend of Rs. 10 per share initially and the growth in dividend is expected to be 5%. Compute the cost of new issue of equity shares.

8. From the following details you are required to make an assessment of the average amount of working capital requirement of Star Ltd. 10

Items	Average Period of Credit	Estimated for the first year (Rs.)
Purchase of material	6 weeks	25,00,000
Wages	$1^1/_2$ weeks	19,50,000
Overheads:		
Rent, rates etc.	6 months	1,00,000
Salaries	1 month	8,00,000
Other overheads	2 months	7,50,000
Sales (cash)	-	2,00,000
Sales (credit)	2 months	50,00,000
Average amount of stock and work-in-progress	-	4,00,000
Average amount of undrawn profit		3,00,000

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