REV-00
MCM /15/20

2013/02

M. COM
Second Semester
Financial Management
(MCM-07)

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

(PART-B: Descriptive)

Duration: 2 hrs. 40 mins. **Marks: 50**

1. Answer any five of the following: **3 x 5 =15**

(a) In what ways is the wealth maximisation objective superior to the profit maximisation objective. Explain .
(b) What is annuity? Explain how can future value of an annuity be determined.
(c) Mention three advantages of Internal Rate of Return method of evaluating investment proposals.
(d) How is the cost of debt computed?
(e) Mention three assumptions of the Net Income Approach of capital structure.
(f) Distinguish between fixed and variable working capital.
(g) Explain briefly the three principal motives for holding cash.

2. Answer any five of the following: **5 x 5=25**

(a) State in brief, the principal functions of a finance manger.
(b) Explain Gordon's Growth Model on dividend policy.
(c) Briefly explain the factors which influence the planning of capital structure in practice.
(d) What do you mean understand by cost of capital? How is it ascertained?
(e) The following information is available in respect of a company:

Equity capitalisation	15%
EPS	Rs. 25
Dividend Pay-out Ratio	25%
ROI	12%

What is the price of the share as per Walter Model?

(f) A company issues 10% debentures for Rs.1,00,000. Rate of tax is 50%. Calculate the cost of debt (before and after tax) if the debenture are issued at a premium of 10%.

(g) A manufacturing company has an expected usage of 50,000 units of certain product during the next year. Re cost of processing an order is Rs.20 and the carrying cost per unit per annum is Re.0.50. Lead time for an order is five days and the company will keep a reserve of two days usage.
Calculate (i) EOQ and (b) Re-order point. Assume 250 days in a year.

3. Answer any one of the following: 10 x 1=10

(a)A company has invested opportunity costing Rs.40,000 with the following expected net cash flow (i.e., after taxes and before depreciation):

Year	Net Cash Flow (Rs.)
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Determine the following:
(i)Payback Period
(ii) Net Present value at 10% discount factor.
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

(b)From the following particulars, prepare a statement working capital needed to finance a level of activity 12,000 units of output per annum.

Analysis of Selling Price per unit	Rs.
Raw Materials	5
Labour	3

Overheads		2
Total Cost		10
Profit		2
Selling Price		12

Additional Information:

(i) Raw Materials are to remain in store on an average 1 month.

(ii) Materials are in process, on an average 2 months.

(iii) Finished Goods are in stock on an average 3 months.

(iv) Credit allowed to Debtors is 4 months.

(v) Credit allowed by suppliers is 2 months.

It may be assumed that production and overheads accrue evenly throughout the year.

****

REV-00
MCM /15/20

2013/02

M. COM
Second Semester
Financial Management
(MCM-07)

(The figures in the margin indicate full marks for the questions)

Duration: 20 minutes **Marks – 20**

(PART A- Objective)

1. Choose the correct answer: **1 x 15=15**

(i) Finance function involves
- (a) Procurement of finance only
- (b) Expenditure of funds only
- (c) Safe custody of funds only
- (d) Procurement and effective utilization of funds

(ii) 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 these

(iii)Time value of money facilitates comparison of cash flows occurring at different time periods by
- (a) Compounding all cash flows to a common point of time
- (b) Discounting all cash flows to a common point of time
- (c) Using either (a) or (b)
- (d) Neither (a) nor (b)

(iv) Capital budgeting refers to the
- (a) Demand and supply of capital
- (b) Managerial technique of planning capital expenditures of the company
- (c) Overall cost of capital
- (d) Raising of capital

(v) What is the rate which equates the present value of expected future cash flows with the cost of investment?
- (a) Internal rate of return
- (b) External rate of return
- (c) Return on investment
- (d) Average rate of return

(vi) The Pay back period shows
- (a) The time value of money
- (b) The cash outflows
- (c) Recovery period of original investment
- (d) None of these

(vii) Which among these is not a discounted cash flow technique?

(a) Net Present Value (b) Pay Back Method

(c) Internal Rate of Return (d) Profitability Index

(viii) Cost of capital means

(a) The minimum rate of return that a firm must earn on its investments

(b) The present value of a past investment

(c) The expected cash inflows

(d) None of these

(ix) 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 these

(x) The two Approaches to the measurement of cost of equity capital are

(a) CAPM and dividend valuation model (b) PERT and CPM

(c) NOI and NI Approach (d) None of these

(xi) The measurement of overall cost of capital depends upon

(a) Combination of Preference and Equity Share Capital

(b) Appropriate weight choices

(c) Historical costs

(d) None of these

(xii) Which of the following is not a theory of capital structure?

(a) Net Income Approach (b) Net Operating Income Approach

(c) Weighted Average Cost of Capital (d) All of these

(xiii) The Net Income approach was suggested by

(a) Modigliani-Miller (b) Durand

(c) Ezra Solomon (d) Walter

(xiv) A stable dividend policy refers to

(a) The consistency or lack of variability in the stream of dividends

(b) Same dividend to be paid very year

(c) Shareholder's wishes regarding dividends

(d) None of these

(xv) Woking capital management is concerned with the problems that arise in attempting to manage

(a) Current assets and fixed liabilities

(b) Fixed assets and current liabilities

(c) Current assets, current liabilities and interrelationship between them

(d) Fixed assets and fixed liabilities

2. State whether the following statements are 'True' or 'False': 1 x 5=5

(i) To arrive at the present value of cash flows, discounting is done at the rate which represents opportunity cost of funds.

(ii) Net Present Value is the best method of evaluating long term investment proposals.

(iii) Weighted average cost of capital takes into consideration cost of long-term sources of finance.

(iv) Dividend can only be paid out of the current years earnings.

(v) Higher net working capital leads to higher liquidity and higher profitability.

****