

**BACHELOR OF COMMERCE**  
**Fifth Semester**  
**FINANCIAL MANAGEMENT**  
**(BCM-23)**

**Duration: 3Hrs.**

**Full Marks: 70**

Part-A (Objective) =20  
Part-B (Descriptive) =50

**(PART-B: Descriptive)**

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

**Marks: 50**

**Answer any five of the following questions**

1. (a) Why is maximizing wealth a better goal than maximizing profits? (5)  
(b) How is the finance function typically organized in a large organization? (5)
2. What is capital budgeting? Why is it significant for a firm? (2+8=10)
3. (a) No project is acceptable unless the yield is 10%, cash inflows of a certain project along with cash outflows are given below: (5)

Years	Outflows (Rs.)	Inflows (Rs.)
0	1,50,000	-
1	30,000	20,000
2		30,000
3		60,000
4		80,000
5		30,000

The salvage value at the end of the 5<sup>th</sup> year is Rs. 40,000. Calculate net present value.



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) Calculate the average rate of return for project A and B from the following: (5)

	<b>Project A</b>	<b>Project B</b>
Investments	Rs.25,000	40,000
Expected Life (no salvage value)	5 year	4 years

Projected Net Income after interest, depreciation and taxes):

Year	Project A (Rs.)	Project B (Rs.)
1	2,000	5,000
2	2,500	4,000
3	1,500	2,000
4	1,000	1,500
5	500	-

If the required rate of return is 10% which project should be undertaken?

4. (a) A company issues 5,000 12% debentures of Rs.100 each at a discount of 5%. The commission payable to underwriters and brokers is Rs.25,000. The debentures are redeemable after 5 years. Compute the after tax cost of debt assuming a tax rate of 50%. (5)

(b) The capital structure and after tax cost of different sources of funds are given below:

Sources of funds	Amount (Rs.)	After tax cost (%)
Equity share capital	7,00,000	15
Preference share capital	6,00,000	14
Retained earnings	4,00,000	?
Debentures	3,00,000	8



5. From the following particulars, prepare a statement working capital needed to finance a level of activity 12,000 units of output per annum (10)

Analysis of Selling Price per unit	Rs.
Raw Materials	5
Labour	3
Overheads	<u>2</u>
Total Cost	10
Profit	<u>2</u>
Selling Price	<u>12</u>

*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.

6. What do you mean by Inventory Management? Explain various tools and techniques used for inventory management. (2+8=10)
7. What is meant by capital structure? What are the considerations to be kept in view while devising the capital structure of a new public company? (2+8=10)
8. What is 'Optimum Capital Structure'? Explain the Net Operating Income theory of capital structure planning. (2+8=10)

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**Duration: 20 minutes**

**Marks – 20**

**(PART A - Objective Type)**

**I. Answer the following:**

**1×20=20**

1. 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 these
2. Key financial functions of a firm include the following except:
  - (a) investment decision
  - (b) make or buy decision
  - (c) dividend decision
  - (d) financing decision
3. Profit is maximized when:
  - (a) Cost is minimized
  - (b) Revenue is maximized
  - (c) Marginal revenue = Marginal cost
  - (d) None of these
4. 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
5. 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 these



6. Which of the following is not considered a reason for preferring the market value weights to the book value weights?
- (a) It represents the current value
  - (b) Market value is taken as an index of efficiency of the firm
  - (c) It resembles to the value maximization objective of the firm
  - (d) Fluctuating market values give a shifting standard rather than a fixed standard
7. 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
8. Capital structure can be classified according to:
- (a) Nature, and sources
  - (b) Ownership and creditorship
  - (c) Cost behavior
  - (d) All of these
9. Which among the following capital structure theories say that, "firm can increase its value by increasing its proportion of debt in the capital structure?"
- (a) Net Income Approach
  - (b) Traditional Approach
  - (c) Net Operating Income Approach
  - (d) none of these
10. According to Net Operating Income Approach the capital structure decision of the firm is
- (a) Relevant
  - (b) Irrelevant
  - (c) sometimes relevant otherwise non-relevant
  - (d) None of these
11. 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
12. Scientific inventory management techniques do not include:
- (a) ABC Analysis
  - (b) Economic Order Quantity
  - (c) Cash Flow Analysis
  - (d) Application and mentoring inventory levels

13. Costs of holding inventory are referred to as

- (a) Ordering cost    (b) Carrying cost    (c) Normal cost    (d) None of these

14. Cash discount to customers is allowed to

- (a) Speed up sales                                      (b) Speed up collection  
(c) Maximize level of average debtors              (d) Minimize bad debts

15. Cash, in a narrow sense, implies

- (a) Currency            (b) Near cash assets            (c) Both (a) & (b)            (d) None of these

16. Synchronizing cash inflows and cash outflows to optimize the cash balance includes:

- (a) Deferring disbursements                              (b) Speeding up collections  
(c) Combining (a) and (b) above                              (d) Stopping payment of current liabilities

17. Discounted cash flow techniques involves

- (a) Net present value                                      (b) Payback method  
(c) Accounting Rate of Return                              (d) None of these

18. The discount rate (hurdle rate of return) must be determined in advance for the :

- (a) Payback period method                              (b) Time adjusted rate of return method  
(c) Net present value method                              (d) None of these

19. 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) Internal rate of return                              (b) Rate of return  
(c) Net present value                                      (d) Net profit

20. The size or level of receivable is not influenced by:

- (a) Level of sales  
(b) Collection of policy  
(c) Number of employees in the credit and collection department  
(d) Credit terms

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