REV-01
MCM/27/32

2023/06

SET A

MASTER OF COMMERCE
SECOND SEMESTER
FINANCIAL MANAGEMENT AND CONTROL
MCM – 201
[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. When economic value added is used as the performance measure, value is only created if the after-tax operating income exceeds
   a. cost of investing capital
   b. investment
   c. working capital
   d. sales

2. When the firm had adequate cash to pay for its bills, it is known as:
   a. Profitability
   b. Liquidity
   c. Risk
   d. Insolvency

3. The job of a finance manager is confined to:
   a. Raising of funds
   b. Management of cash
   c. Raising of funds and their effective utilization
   d. None of the above

4. Financial decisions involve
   a. Investment, financing and dividend decisions
   b. Investment, financing and sales decisions
   c. Financing, dividend and cash decisions
   d. Financing, sales and cash decisions

5. ………….is long-term planning for making and financing proposed capital outlays.
   a. Planning for capital
   b. Working capital management
   c. Capital budgeting
   d. Inventory management

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. Internal rate of return is ……………..
   a. Rate at which discounted cash inflow is more than discounted cash outflow
   b. Rate at which discounted cash inflow is less than discounted cash outflow
   c. Rate at which discounted cash inflow is equal to the discounted cash outflow
   d. Either a or b

8. The pay back method of capital budgeting appraisal method is suitable when
   a. A firm suffers from liquidity crisis
   b. A firm expects long-term growth
   c. A firm has stable political conditions
   d. A firm has favourable market conditions

9. Cost of capital means
   a. The present value of a past investment
   b. The minimum rate of return that a firm must earn on its investment
   c. The expected cash inflows
   d. The expected cash outflows

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

11. The term "capital structure" means
    a. Long-term debt, preferred stock, and equity shares
    b. Current assets and current liabilities
    c. Net working capital
    d. Shareholders' equity

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

13. Stock dividend is also known as
    a. Scrip dividend
    b. Bonus shares
    c. Right shares
    d. Property dividend

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. The relevance theory of dividend was supported by:
    a. Walter
    b. Gordon
    c. Both a and b
    d. None of the above

16. 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. Different dividend to be paid every year

17. Operating cycle can be shortened by increasing
    a. Manufacturing time
    b. Duration of credit available
    c. Stock held in stores
    d. Credit period to the customers

18. Which is not the long-term source of working capital?
    a. Retained earnings
    b. Long-term debts
    c. Issue of shares
    d. Provision for taxation

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 Motive
   d. Compensating Motive

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Descriptive

Time : 2 Hr. 30 Mins. **Marks : 50**

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

1. Explain the objectives of financial management. 10

2. What is capital budgeting? Discuss the need and importance of capital budgeting. 2+8=10

3. a) A 5 year debenture of a firm can be sold for a net price of Rs.96.50. The coupon rate of interest is 14% per annum, and the debenture will be redeemed at 5% 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.

4. What is meant by capital structure? Give a critical appraisal of the Modigliani-Miller approach to the problem of capital structure. 2+8=10

5. What do you mean by dividend policy? Explain the various factors which influence the dividend decision of a firm. 2+8=10

6. What do you mean by receivables? Discuss the factors which influence the size of receivables 2+8=10