BACHELOR OF COMMERCE
FIFTH SEMESTER [SPECIAL REPEAT]
FUNDAMENTALS OF FINANCIAL MANAGEMENT
BCM – 502

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 a part of financial decision-making?
   a. Investment decision
   b. Financing decision
   c. Dividend decision
   d. All of the above

2. Time value of money explains that:
   a. A unit of money received today is worth more than a unit received in future
   b. A unit of money received today is worth less than a unit received in future
   c. A unit of money received today and at some other time in future is equal
   d. None of the above

3. 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 the above

4. Mr. A has a perpetual bond of the face value of Rs. 1,000. He receives an interest of Rs.60 annually. What would be its value if the required rate of return is 10%?
   a. Rs.500
   b. Rs.600
   c. Rs.700
   d. Rs.800

5. .... is long-term planning for making and financing proposed capital outlays.
   a. Capital budgeting
   b. Working capital management
   c. Cash budget
   d. Flexible budget

6. .... is the ratio of the average annual profits after taxes to the average investment in the projects.
   a. Internal rate of return
   b. Average rate of return
   c. Net present value
   d. Profitability index

7. Profitability index is also known as .... ratio.
   a. Cost/benefit
   b. Benefit/cost
   c. Net profit/net loss
   d. Income/expenditure

8. What is the rate which equates the present value of expected future cash flows with the cost of investment?
   a. External rate of return
   b. Average rate of return
   c. Internal rate of return
   d. None of the above

9. A firm's cost of capital is the
   a. Cost of bonds
   b. Cost of issuing stock
   c. Cost of preferred capital
   d. Overall cost of financing to the firm

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

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

12. Which of the following is irrelevant for optimal capital structure?
   a. Flexibility
   b. Solvency
   c. Liquidity
   d. Control

13. 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. None of the above

14. If the shareholders prefer regular income, how does it affect the dividend decision:
   a. It has no impact on divided decision
   b. It is the indicator to retain more earnings
   c. It will lead to payment dividend
   d. Can't say

15. According to Prof. Walter, If r>k i.e., if the firm earns a higher rate of return on its investment than the required rate of return, the firm should ....
   a. Retain the earnings
   b. Distribute its earnings
   c. Partially distribute its earnings
   d. Partially distribute its earnings

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

17. The working capital management refers to the management of ....
   a. Current and fixed assets
   b. Fixed assets and current liabilities
   c. Current assets and current liabilities
   d. Fixed and current liabilities

18. Net working capital is the excess of current assets over
   a. total liabilities
   b. current liabilities
   c. intangible liabilities
   d. None of the above

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. an increase in the average collection period
   b. a decrease in bad debt losses
   c. an increase in sales
   d. higher profits

20. The .... motive refers to the tendency of a firm to hold cash, to meet the contingencies or unforeseen circumstances arising in the course of business.
   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. What do you understand by dividend policy? Explain briefly the various factors which influence the dividend decision of a firm. 2+8=10

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

5. A company is currently paying a dividend of Rs. 4.24 per share. The dividend is expected to grow at a 18% annual rate for five years and then at 12% for ever. What is the present value of the share, if the capitalization rate is 14%? 10

6. The following is the capital structure of Moon Ltd.:

Source of capital	Rs.
Equity Share – 20,000 shares of Rs. 100 each	20,00,000
10% Preference Shares of Rs. 100 each	8,00,000
12% Debenture	12,00,000
	40,00,000

The market price of the company's share is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared after 1 year. The dividend growth rate is 6%. If the company is in the 50% tax bracket, compute the weighted average cost of capital. 10

7. From the following information calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%. 5+5=10

	Project X	Project Y
Initial Investment	Rs.30,000	Rs.40,000
Estimated Life	5 years	5 years
Scrap Value	Rs.1,000	Rs.1,000

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

	Year 1 Rs.	Year 2 Rs.	Year 3 Rs.	Year 4 Rs.	Year 5 Rs.
Project X	10,000	15,000	10,000	3,000	2,000
Project Y	25,000	15,000	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	6	7	8	9	10
P.V.	0.9 09	0.8 26	0.7 51	0.6 83	0.62 1	0.56 4	0.51 4	0.4 67	0.42 4	0.3 86

8. Prepare an estimate of working capital requirements from the following information of a trading concern: 10

a) Projected annual sales 2,00,000 units
b) Selling price Rs.10 per unit
c) Percentage of net profit on sales 25%
d) Average credit period allowed to customers 8 weeks
e) Average credit period allowed by suppliers 4 weeks
f) Average stock holding in terms of sales requirements 10 weeks
g) Allow 10% for contingencies

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