

M.COM
SECOND SEMESTER
FINANCIAL MANAGEMENT
MCM-202

Duration: 3 Hrs.

Marks: 70

{ Part : A (Objective) = 20 }
{ Part : B (Descriptive) = 50 }

[PART-B : Descriptive]

Duration: 2 Hrs. 40 Mins.

Marks: 50

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

1. Explain the objectives of financial management - profit maximization vs. wealth maximization. (10)
2. What is pay-back method? Discuss the merits and demerits of pay-back method of investment proposal. (10)
3. What do you mean by cost of capital? Discuss its importance. (2+8=10)
4. What do you mean by receivables? Discuss the factors which determine the size of receivables. (2+8=10)
5. What do you mean by EPS? Care Company Ltd. has an all equity structure consisting of 20,000 equity shares of Rs.100 each. The management plans to raise Rs.30 lakhs to finance a programme of expansion. Three alternative methods of financing are under consideration: (2+8=10)
 - i. Issue of 30,000 equity shares of Rs.100 each
 - ii. Issue of 30,000 8% debentures of Rs.100 each
 - iii. Issue of 30,000 8% preference shares of Rs.100 eachThe company's expected earnings before interest and taxes (EBIT) are Rs.10 lakhs. Determine the earnings per share in each alternative assuming tax rate of 50%. Which alternative is the best and why?

6. What do you mean by dividend policy? Explain critically the Walter's Model of dividend policy. (5+5=10)
7. (a) Using the information given below, compute the Pay-back period under (i) Traditional Pay-back Method and (ii) Discounted Pay-back Method: (5+5=10)

Initial Outlay Rs.80,000
 Estimated life 5 Years

End of the year	Profit before depreciation but after tax: (Rs.)
1	22,000
2	30,000
3	40,000
4	32,000
5	16,000

8. Prepare an estimate of working capital requirements from the following information of a trading concern: (5+5=10)
- (i) Projected Annual sales 2,00,000 units
 - (ii) Selling Price Rs.10 per unit
 - (iii) Percentage of Net Profit on Sales 25%
 - (iv) Average Credit period allowed to Customers 10 weeks
 - (v) Average Credit period allowed by Suppliers 5 weeks
 - (vi) Average Stock Holding in terms of Sales Requirements 10 weeks
 - (vii) Allow 10% for Contingencies

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[PART-A : Objective]

Choose the correct answer from the following:

1×20=20

1. Management of all matters related to an organization's finance is called:
 a. Cash inflows and outflows
 b. Allocation of resources
 c. Financial management
 d. finance
2. Concepts of present value and future value are:
 a. Not related to each other
 b. Directly related to each other
 c. Proportionately related to each other
 d. Inversely related to each other
3. What is ignored in profit maximization?
 a. Net value
 b. Wealth
 c. Time value of money
 d. None of the above
4. Pattern of capital structure include:
 a. Only equity
 b. Equity + Preference shares
 c. Equity shares + Debentures
 d. All of the above
5. MM approach is similar to:
 a. Net operating income approach
 b. Traditional approach
 c. Both (a) and (b)
 d. None of the above
6. Capital structure denotes the:
 a. Capital mix
 b. Financing mix
 c. Equity mix
 d. None of the above

7. Irregular dividend policy is followed due to:
 a. Uncertain of earnings
 b. Heavy burden of interest
 c. Shortage of liquid asset
 d. All of the above
8. Capital budgeting is also known as:
 a. Investment decision making
 b. Capital expenditure decision
 c. Planning capital expenditure
 d. All of the above
9. Capital expenditure is one which is intended to benefitsperiods.
 a. Future
 b. Past
 c. Current
 d. None of the above
10. Which is not the long-term source of capital?
 a. Retained earnings
 b. Long-term debts
 c. Issue of share
 d. Provision for taxation
11. Total of all current assets is:
 a. Gross working capital
 b. Net working capital
 c. Fixed working capital
 d. Note of the above
12. A firm's cost of capital is the:
 a. Overall cost of financing to the firm
 b. Cost of bonds
 c. Cost of issuing stock
 d. None of the above
13. Which one of the following points is not merits of payback period?
 a. Easy to understand
 b. Emphasizes liquidity
 c. Not a measure of probability
 d. Uses cash flow information
14. Given: risk free rate of return=5%, market return=10%, cost of equity=13%, value of beta is:
 a. 1.2
 b. 1.5
 c. 1.6
 d. 1.8

15. Which of the following is not considered a reason for preferring the market value weights to the book value weights?
- It represents the current value.
 - Market value is taken as an index of efficiency of the firm.
 - It resembles to the value maximization objective of the firm.
 - Fluctuating market values give a shifting standard rather than a fixed standard.
16. In formulating dividend theory both Walter and Gordon assumed three categories of firms except:
- Normal firm
 - Growth firm
 - Declining firm
 - Liquidating firm
17. The size or level of debtors is not influenced by:
- Levels of sales
 - Collection Policy
 - Number of employees in the credit and collection department
 - None of the above
18. What is the rate which equates the present value of expected future cash flows with the cost of investment?
- Internal rate of return
 - External rate of return
 - Return on investment
 - Average rate of return
19. Cash discount to customers is allowed to:
- Speed up sales
 - Speed up collection
 - Maximize level of debtors
 - Maximize bad debts
20. Capital structure can be classified according to:
- Nature and sources
 - Ownership and creditorship
 - Cost of behavior
 - All of the above

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UNIVERSITY OF SCIENCE & TECHNOLOGY, MEGHALAYA



Question Paper CUM Answer Sheet

[PART (A) : OBJECTIVE]

Serial no. of the main
Answer sheet

Course :

Semester : Roll No :

Enrollment No : Course code :

Course Title :

Session : 2016-17 Date :

Instructions / Guidelines

- The paper contains twenty (20) / ten (10) questions.
- The student shall write the answer in the box where it is provided.
- The student shall not overwrite / erase any answer and no mark shall be given for such act.
- Hand over the question paper cum answer sheet (Objective) within the allotted time (20 minutes / 10 minutes) to the invigilator.

Full Marks	Marks Obtained	Remarks
20		

Scrutinizer's Signature

Examiner's Signature

Invigilator's Signature