REV-01
BCM/01/05

2024/07

SET A

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

[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. Maximization of shareholder's wealth is reflected in
   a. Sales maximization
   b. Number of shareholders
   c. Market price of equity shares
   d. Market price of debentures

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. Which one of the following is a short term source of finance?
   a. Debentures
   b. Commercial Paper
   c. Equity Shares
   d. Loan from Financial Institution

4. Which one of the following is included in the category of owner's funds?
   a. Debentures
   b. Loan from Banks
   c. Equity Shares
   d. Public Deposits

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

7. The length of time required to recover the initial cash outlay on the project is known as
   a. Normal period
   b. Short period
   c. Pay-back period
   d. Super normal period

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. Cost of ....is the opportunity cost of dividends foregone by the shareholders.
   a. Equity capital
   b. Debt
   c. Preference capital
   d. Retained earnings

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

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

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 its earnings
   b. Distribute its earnings
   c. Partially distribute its earnings
   d. Partially retain 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. current obligations for payment
   c. Current assets and current liabilities
   d. expenditure to acquire capital

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? Enumerate briefly the major steps involved in it. 2+8=10

3. What is meant by capital structure? Discuss the factors affecting capital structure. 2+8=10

4. Explain the various factors which influence the dividend decision of a firm. 10

5. What is 'receivables management'? Discuss the factors which influence the size of receivables. 2+8=10

6. The following is the capital structure of Star Box 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. Calculate the average rate of return for projects X and Y from the following: 4+4+2=10

	Project X	Project Y
Investments	Rs.20,000	Rs.30,000
Expected Life (no salvage value)	4 years	5 years

Projected Net Income (after interest, depreciation and taxes)

Year	Project X Rs.	Project Y Rs.
1	2,000	2,500
2	1,000	3,000
3	2,500	2,500
4	1,500	2,000
5	-	1,000
Total	7,000	11,000

If the required rate of return is 12% which project should be undertaken?

8. From the following details you are required to make an assessment of the average amount of working capital requirement of Sun Flower Ltd. 10

Items	Average Period of Credit	Estimated for the first year (Rs.)
Purchase of material	6 weeks	25,00,000
Wages	$1^1/_2$ weeks	19,50,000
Overheads:		
Rent, rates etc.	6 months	1,00,000
Salaries	1 month	8,00,000
Other overheads	2 months	7,50,000
Sales (cash)	-	2,00,000
Sales (credit)	2 months	50,00,000
Average amount of stock and work-in-progress	-	4,00,000
Average amount of undrawn profit		3,00,000

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