SET A

MASTER OF COMMERCE
SECOND SEMESTER [REPEAT]
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. Wealth maximization objective stands for:
   a. Maximizing earnings per share
   b. Maximizing market value of equity shares
   c. Maximizing value of debt instruments
   d. Maximizing dividend per share

2. The term 'EVA' is used for:
   a. Extra Value Analysis
   b. Expected Value Analysis
   c. Economic Value Added
   d. Engineering Value Analysis

3. Which of the following concepts is not related to the time value of money?
   a. Present Value
   b. Future Value
   c. Net Present Value
   d. Gross Profit

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. Capital Budgeting is a part of……………..
   a. Marketing Management
   b. Working capital management
   c. Capital Structure
   d. Investment Decision

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. In Risk-Adjusted Discount Rate method, which one is adjusted?
   a. Cash flows
   b. Rate of discount
   c. Life of the proposal
   d. Salvage value

9. Which of the following cost of capital require tax adjustment?
   a. Cost of Equity Capital
   b. Cost of Debenture
   c. Cost of Preference Capital
   d. None of the above

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 denotes:
    a. Total of Liability side of Balance Sheet
    b. Equity Capital, Preference Capital and Long term Debt
    c. Total Shareholders' Equity
    d. Types of Capital Issued by a Company

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

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

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. Which of the following is the irrelevance theory of Dividend Policy?
    a. Walter's model
    b. Gordon's model
    c. M.M. hypothesis
    d. Linter's model

16. A stable dividend policy refers to:
    a. The consistency or lack of variability in the stream of dividends
    b. Different dividend to be paid every year
    c. Shareholder's wishes regarding dividends
    d. None of the above

17. Net working capital is the excess of current assets over:
    a. Total liabilities
    b. Total assets
    c. Current liabilities
    d. Intangible liabilities

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
   d. Compensating

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Descriptive

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

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

1. Discuss the prominent areas of financial decision making. 10

2. Critically examine the Net Income approach to capital structure. 10

3. What do you mean by dividend policy? Explain 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. From the following information, calculate the net present value of the two projects at discount rate of 10 per cent. 10

	Project X	Project Y
Initial Investment	Rs.20,000	Rs.30,000
Estimated Life	5 years	5 years
Scrap Value	Rs.2,000	Rs.2,000

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	5,000	10,000	8,000	5,000	2,000
Project Y	18,000	12,000	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
Present Value	0.909	0.826	0.751	0.683	0.621

6. The following is the capital structure of a company: 5+5=10

Source of Capital	Rs.
Equity Shares @ Rs. 100 each	700000
9% Preference Shares @ Rs. 100 each	300000
12% Debentures	500000
Retained Earnings	500000

The current market price of the company's share is Rs. 200. For the last year the company had paid equity dividend at 20 per cent and its dividend is likely to grow 5 per cent every year. The corporate tax rate is 40 per cent and shareholders personal income tax rate is 20 per cent. You are required to calculate weighted average cost of capital.

7. There are two projects P and Q. Each involves an investment of Rs. 50,000. The expected cash inflows and the certainty coefficients are as under: 10

Year	Project P		Project Q	
	Cash Inflow (Rs.)	Certainty Coefficient (Rs.)	Cash Inflow (Rs.)	Certainty Coefficient (Rs.)
1	30,000	0.8	20,000	0.9
2	25,000	0.7	35,000	0.8
3	20,000	0.9	25,000	0.7

Risk-free cut off rate is 10%. Suggest which of the two projects should be preferred.

8. Sunrise Ltd. sells its products on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the year ended 31st March, 2023: 10

	Rs.
Sales (2 Months credit)	40,00,000
Raw materials	12,00,000
Wages (15 days in arrears)	9,60,000
Manufacturing expenses (one month in arrears)	12,00,000
Administration expenses (one month in arrears)	4,80,000
Sales promotion expenses (payable half yearly in advance)	2,00,000

The company enjoys one month's credit from suppliers of raw materials and maintains 2 months stock of new materials and one and a half months finished goods. Cash balance is maintained at Rs.1,00,000 as a precautionary balance. Assuming a 10% margin, find out the working capital requirements of Sunrise Ltd. Cost of sales for computation of debtors and stock of finished goods may be taken at sales minus gross profit as per rate of gross profit given.

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