Write the following information in the first page of Answer Script before starting answer

ODD SEMESTER EXAMINATION: 2020-21

Exam ID Number_____________________________

Course___________________________ Semester_______________________

Paper Code_________________Paper Title__________________________________

Type of Exam: _____________________________ (Regular/Back/Improvement)

Important Instruction for students:

1. Student should write objective and descriptive answer on plain white paper.
2. Give page number in each page starting from 1st page.
3. After completion of examination, Scan all pages, convert into a single PDF, rename the file with Class Roll No. **(2019MBA15)** and upload to the Google classroom as attachment.
4. Exam timing from 10am – 1pm (for morning shift).
5. Question Paper will be uploaded before 10 mins from the schedule time.
6. Additional 20 mins time will be given for scanning and uploading the single PDF file.
7. Student will be marked as ABSENT if failed to upload the PDF answer script due to any reason

REV-01 2021/03
BCM/

BACHELOR OF COMMERCE
FIFTH SEMESTER
FUNDAMENTALS OF FINANCIAL MANAGEMENT
BCM-502

Duration : 3 hrs. **Full Marks: 70**

(PART-A: Objective)

Time : 20 min. **Marks : 20**

Choose the correct answer from the following: *1X20=20*

1. The only feasible purpose of financial management is
- **a.** Sales Maximization **b.** Wealth Maximization
- **c.** Profit Maximization **d.** Assets Maximization

2. Finance function involves
- **a.** Procurement of finance only **b.** Expenditure of funds only
- **c.** Procurement and effective utilization of funds **d.** Safe custody of funds only

3. Wealth maximization objective stands for:
- **a.** maximizing value of debt instruments **b.** maximizing market value of equity shares
- **c.** maximizing earnings per share **d.** None of the above

4. Mr. A has a perpetual bond of the face value of Rs. 1,000. He receives an interest of Rs.80 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.** Planning for capital **b.** Capital budgeting
- **c.** Working capital management **d.** All of the above

6. Profitability index is also known as ……………… ratio.
- **a.** Cost/benefit **b.** Net Profit/investment
- **c.** Benefit/cost **d.** Cost/profit

7. The payback method measures
- **a.** The cash flow from an investment **b.** How quickly the investment may be recovered
- **c.** The economic life of an investment **d.** The profitability of an investment

8. The difference between the total present value of a stream of cash flows at a given rate of discount and the initial capital outlay is known as the:
- **a.** Net Present Value **b.** Net Profit
- **c.** Gross Profit **d.** Net Loss

9. Which among these is not a specific cost?

a. Cost of debt
b. Cost of retained earnings
c. Cost of an asset
d. Cost of equity capital

10. A firm's cost of capital is the

a. Overall cost of financing to the firm
b. Cost of term loan
c. Cost of issuing stock
d. Cost of Retained earnings

11. Capital structure denotes the

a. Capital mix
b. Financing mix
c. Equity mix
d. Debt mix

12. Which of the following is not a fundamental assumption made by Modigliani and Miller?

a. No taxes
b. There is imperfect information
c. Firm can be classified into distinct risk classes
d. None of the above

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. Can't say
b. It is the indicator to retain more earnings
c. It has no impact on divided decision
d. It will lead to payment dividend

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. Total of all current assets is

a. Fixed working capital
b. Gross working capital
c. Net working capital
d. Positive working capital

18. The size or level of debtors is not influenced by:

a. Levels of sales
b. Collection Policy
c. Number of employees in the credit and collection department
d. None of the above

19. Scientific inventory management techniques do not include:

a. ABC Analysis
b. VED Analysis
c. Cash Flow Analysis
d. Economic Order Quantity

20. …………… refers to a firm holding some cash to meet its routine expenses that are incurred in the ordinary course of business.

a. Transaction
b. Precautionary
c. Speculative Motive
d. Compensating Motive

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PART-B : Descriptive

Time: 2 HRS 40 MINS . **Marks : 50**

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

1. "The finance manager should take into consideration the time value of money in order to take correct financial decisions." Elucidate. 10

2. Define capital budgeting. Examine its need and importance. 2+8=10

3. Define the concept of 'cost of capital'. Explain the significance of cost of capital. 4+6=10

4. What is meant by capital structure? Discuss the factors affecting capital structure of a company.

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

6. What is meant by 'inventory management'? Explain briefly any four tools and techniques used for inventory management. 2+8=10

7. No project is acceptable unless the yield is 10%. Cash inflows of a certain project alongwith cash outflows are given below: 5+5=10

Year	Cash Outflows Rs.	Cash Inflows Rs.
0	1,30,000	-
1	20,000	20,000
2		25,000
3		55,000
4		75,000
5		30,000

The salvage value at the end of the 5th year is Rs.20,000. Calculate net present value and Profitability Index.

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

(a) Project annual sales	1,00,000 units
(b) Selling price	Rs. 5 per unit
(c) % age of net profit on sales	20%
(d) Average credit period allowed to customers	4 weeks
(e) Average credit period allowed by suppliers	2 weeks
(f) Average stock carrying (in terms of sales requirements)	8 weeks
(g) Allow 10% for contingencies	

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