REV-01
BCM/26/31

2022/12

SET A

BACHELOR OF COMMERCE [HONS]
FIFTH SEMESTER
FUNDAMENTALS OF 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. The long-term objective of financial management is to
   a. Maximize earning per share
   b. Maximize the value of the firm's common stock
   c. Maximize return on investment
   d. Maximize market share

2. 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

3. What is ignored in profit maximization?
   a. Time value of money
   b. Net value
   c. Gross value
   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.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. Capital budgeting is a part of
   a. Investment decision
   b. Working capital management
   c. Capital structure
   d. Dividend decision

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. The payback method of capital budgeting appraisal method is suitable when
   a. A firm suffers from liquidity crisis
   b. A firm expects long-term growth
   c. A firm has stable political conditions
   d. A firm has favourable market conditions

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. ....is the combined cost of various sources of capital.
   a. Specific cost
   b. Composite cost
   c. Weighted average cost of capital
   d. Both (b) & (c)

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

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. Which of the following is not an application of working capital?
   - a. day-to-day expenditure of business
   - b. current obligations for payment
   - c. expenditure in the usual course of business
   - 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. Define capital budgeting? Discuss the capital budgeting process. 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 Management? Discuss the factors which influence the size of receivables. 2+8=10

5. A company is expected to pay a dividend of Rs.5 per equity share now. Its dividends are expected to grow at 18% for the next 4 years and then at the rate of 12% indefinitely. Find out the present value of its equity share, if the capitalization rate is 10%. 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. Calculate the average rate of return for projects X and Y from the following: 5+5=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. 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 cost of 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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Extra

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