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

The cost of capital may be taken at 20% p.a and the present value of Re.1 at 20% is given below:

Year	1	2	3	4	5
P.v. factor	0.83	0.69	0.58	0.48	0.40

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M. COM
Second Semester (Repeat)
FINANCIAL MANAGEMENT
(MCM - 07)

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

Part-A (Objective) =20
Part-B (Descriptive) =50

(PART-B: Descriptive)

Duration: 2 hrs. 40 mins. **Marks: 50**

I. Answer the following questions (any *five*): 2×5=10

a) What do you mean by receivables?

b) What do you mean by capital budgeting?

c) What is explicit cost?

d) What do you mean by ‘maximization of wealth’?

e) What do you mean by finance?

f) What do you mean by capital rationing?

g) What is meant by capital structure of a firm?

II. Answer the following questions (any *five*): 3×5=15

a) Write short note on stability of dividend policy.

b) Write three advantages of Internal Rate of Return method of capital budgeting.

c) Mention three assumptions of the Net Income Approach of capital structure.

d) How is the weighted average cost of capital calculated?

e) Write any three assumptions of Gordon’s Growth Model on dividend policy.

f) Distinguish between fixed working capital and variable working capital.

g) Briefly explain and illustrate the concept of ‘time value of money’.

III. Answer the following questions (any *five*): **5×5=25**

a) A project costs Rs.25, 000 and has a scrap value of Rs.5, 000 after 5 years. The net profit before depreciation and taxes for the five years period are expected to be Rs. 5, 000, Rs. 6,000, Rs.7, 000, Rs. 8,000 and Rs. 10,000. You are required to calculate the accounting rate of return (on average investment) assuming 50% rate of tax and depreciation on straight line method.

b) At the time of his retirement of Mr. Ravi Verma is given a choice between two alternatives: (i) an annual pension of Rs. 10,000 as long as he lives, and (ii) a lump sum payment of Rs. 60,000. If Ravi Verma expects to live for 15 years and rate of interest is 15%, which alternative should he select?

c) RL Ltd. has the following book value capital structure:

Sources of Funds	Rs. in Crores
Equity Share Capital (in shares of Rs.10 each, fully paid up at par)	5
11% Preference Share Capital (in shares of Rs. 100 each paid up at par	1
Retained Earnings	20
13.5% Debenture (of Rs. 100 each)	10
15% Term Loans	12.5

The next expected dividend on equity shares per share is Rs.3.60; the dividend per share is expected to grow at the rate of 7%. The market price per share is Rs. 40.

Preference stock, redeemable after ten years, is currently selling at Rs. 75 per share.

Debentures, redeemable after six years, are selling at Rs. 80 per debenture.

The income tax rate for company is 40%

Calculate the weighted average cost of capital using market value proportions.

d) Explain briefly the factors that determine the size of the investment a company makes in Accounts Receivables.

e) Moon Ltd. has an all equity structure consisting of 20,000 equity shares of Rs.100 each. The management plans to raise Rs.50 lakhs to finance a programme of expansion. Three alternative methods of financing are under consideration:

i. Issue of 50,000 equity shares of Rs.100 each

ii. Issue of 50,000 8% debentures of Rs.100 each

iii. Issue of 50,000 8% preference shares of Rs.100 each

The company's expected earnings before interest and taxes (EBIT) are Rs.40 lakhs. Determine the earnings per share in each alternative assuming tax rate of 50%. Which alternative is the best and why?

f) Prepare an estimate of working capital requirements from the following information of a trading concern:

(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	

g) Using the information given below, compute the Pay-back period under (i) Traditional Pay-back Method and (ii) Discounted Pay-back Method:

Initial Outlay	Rs.80,000
Estimated life	5 Years

REV-00
MCM/01/06 2017/08

M. COM
Second Semester (Repeat)
FINANCIAL MANAGEMENT
(MCM - 07)

Duration: 20 minutes **Marks – 20**

(PART A - Objective Type)

I. Choose the correct answer: **1×20=20**

1. The objective of a good dividend policy is to:
   (a) Maximize the value of the firm.
   (b) Minimize the amount to be ploughed back.
   (c) Iron out the fluctuation in earning.
   (d) Prevent transfer of share.

2. Modern techniques involves:
   (a) Net present value (b) Payback method
   (c) Accounting Rate of Return (d) None of these

3. Time value of money facilitates comparison of cash flows occurring at different time periods by
   (a) Compounding all cash flows to a common point of time.
   (b) Discounting all cash flows to a common point of time.
   (c) Using either (a) or (b).
   (d) Neither (a) nor (b).

4. Value or wealth maximization objective stands for:
   (a) Maximizing earnings per share.
   (b) Maximizing value of debt instruments.
   (c) Maximizing market value of equity share.
   (d) None of these.

5. 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

6. Cost of capital means:
   (a) The minimum rate of return that a firm must earn on its investments.
   (b) The present value of a past investment.
   (c) The expected cash inflows.
   (d) None of these.

7. Which among these is not a specific cost?
   (a) Cost of debt (b) Cost of retained earnings
   (c) Cost of an asset (d) None of these

8. In the discussion relating to conceptual aspects of capital structure, we are not concerned with the following rates of return:
   (a) Return on investment (b) Cost of debt capital
   (c) Cost of equity capital (d) Weighted average cost of capital

9. The assumptions of M-M hypothesis does not include the following:
   (a) Capital markets are imperfect.
   (b) Investors have homogeneous expectation.
   (c) All firms can be classified into homogeneous risk classes.
   (d) The dividend payout ratio is cent percent, and there is no corporate tax.

10. The main functions of a finance manger include the following except:
    (a) Asset management (b) Capital structure planning
    (c) Internal control and audit (d) Fund management

11. The difference between the total present value of a stream at a of cash given rate of discount and the initial capital outlay is known as the:
    (a) Internal Rate of Return (b) Rate of Return
    (c) Net Present Value (d) Net Profit

12. Dividend can be paid:
    (a) Out of current profits.
    (b) Out of past profits.
    (c) Partly out of current profits and partly out of past profits.
    (d) None of these.

13. In formulating dividend theory both Walter and Gordon assumed three categories of firms except:
    (a) Normal firm (b) Growth firm
    (c) Declining firm (d) Liquidating firm

14. Working capital management is concerned with the problems that arise in attempting to manage:
    (a) Fixed assets and current liabilities.
    (b) Current assets, current liabilities and interrelationship between them.
    (c) Fixed assets and fixed liabilities.
    (d) Current assets and fixed liabilities.

15. Cash discount to customers is allowed to
    (a) Speed up sales (b) Speed up collection
    (c) Maximize level of average debtors (d) Minimize bad debts

16. The size or level of receivable is not influenced by:
    (a) Level of sales.
    (b) Collection of policy.
    (c) Number of employees in the credit and collection department.
    (d) Credit terms.

17. The main reasons for time preference for money include:
    (a) Reinvestment opportunities (b) Uncertainty
    (c) Inflation (d) All of these

18. In a trading concern, the circulating nature of current assets is represent by:
(a) Cash - stock-in-hand - cash – debtors
(b) Cash – stock-in-trade – debtors – cash
(c) Cash – debtors – cash – stock-in-trade
(d) Cash – debtors – stock-in-trade – cash

19. What is the rate which equates the present value of expected future cash flows with the cost of investment?
(a) Internal rate of return
(b) External rate of return
(c) Return on investment
(d) Average rate of return

20. Which of the following is not considered a reason for preferring the market value weights to the book value weights?
(a) It represents the current value.
(b) Market value is taken as an index of efficiency of the firm.
(c) It resembles to the value maximization objective of the firm.
(d) Fluctuating market values give a shifting standard rather than a fixed standard.

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Instructions to Candidates

1. This answer booklet has 4 pages. Please check before writing whether it is complete or in good condition.
2. Do not write your name anywhere in the answer booklet.
3. Write legibly on both sides of the paper
4. You may use some space for any rough notes or calculation on the answer booklet if you need. These rough notes, calculations must be scored out before submitting the answer booklet.
5. Do not bring any book or loose paper in the examination hall.
6. Do not tear any page from the answer booklet.
7. Do not write anything on the question paper or blotting paper or any pieces of paper while you are in the examination hall.
8. Any act of indiscipline or misbehavior in the examination hall will result in your expulsion.
9. No examinee is allowed to leave the examination hall until 30 minutes lapse after the commencement of the examination.
10. Additional answer sheet will be supplied after the main answer booklet is completed.

For Objective Type Questions

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