(PART B : Descriptive)

Time: 2 hrs. 40 min. **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? Why is it significant for a firm? (2+8=10)
3. What is 'Optimum Capital Structure'? Explain the Net Income theory of capital structure planning. (2+8=10)
4. What is meant by capital structure? Discuss the factors affecting capital structure. (2+8=10)
5. Write short notes on *any two* of the following: (5×2=10)
   a) Economic Order Quantity
   b) A-B-C Analysis
   c) VED Analysis
6. What do you mean by Inventory Management? Explain various tools and techniques used for inventory management. (2+8=10)
7. a) A company issues 5,000 12% debentures of Rs.100 each at a discount of 5%. The commission payable to underwriters and brokers is Rs.25,000. The debentures are redeemable after 5 years. Compute the after tax cost of debt assuming a tax rate of 50%. (5)

   b) The capital structure and after tax cost of different sources of funds are given below: (5)

Sources of funds	Amount (Rs.)	After tax cost (%)
Equity share capital	7,00,000	15
Preference share capital	6,00,000	14
Retained earnings	4,00,000	?
Debentures	3,00,000	8

8. a) Why is maximizing wealth a better goal than maximizing profits? (5)

   b) How is the finance function typically organized in a large organization? (5)

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REV-00 2018/08
Rep/BCM/01/04

B. Com
FIFTH SEMESTER
FINANCIAL MANAGEMENT
BCM – 503

(Use separate answer scripts for Objective & Descriptive)

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

(PART A : Objective)

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

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

1. Which of the following is not an element of financial management?
   a) Allocation of resources b) Financial decision making
   c) Financial planning d) Financial control
2. What is ignored in profit maximisation?
   a) Wealth b) Gross value
   c) Time value of money d) None of the above
3. Finance function involves:
   a) Procurement of finance only.
   b) Expenditure of funds only.
   c) Safe custody of funds only.
   d) Procurement and effective utilization of funds.
4. How to achieve wealth maximization?
   a) Avoid high level of risks b) Reduction in cost
   c) Pay dividends d) All of the above
5. ....is long-term planning for making and financing proposed capital outlays.
   a) Capital budgeting b) Working capital management
   c) Planning for capital d) None of the above
6. 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.
7. The discount rate (hurdle rate of return) must be determined in advance for the:
   a) Payback period method b) Time adjusted rate of return method
   c) Net present value method d) None of the above
8. Net present value is equal to
   a) Total present value of cash inflows – Total present value of cash outflows.
   b) Total present value of cash outflows.
   c) Total present value of cash outflows + Total present value of cash inflows.
   d) None of the above.

9. 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) All of the above

10. 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 the above

11. Wealth maximization objective stands for:
   a) maximizing earnings per share.
   b) maximizing value of debt instruments.
   c) maximizing market value of equity shares.
   d) none of these.

12. Key financial functions of a firm include the following except:
   a) investment decision   b) make or buy decision
   c) dividend decision   d) financing decision

13. Profit is maximized when:
   a) Cost is minimized   b) Revenue is maximized
   c) Marginal revenue = Marginal cost   d) None of these

14. Given: risk free rate of return=15%, market return=20% and value of beta=1.5. What is the expected rate of return?
   a) 22.5   b) 23.5   c) 24.5   d) None of these

15. 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.

16. 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

17. Capital structure can be classified according to:
   a) Nature, and sources   b) Ownership and creditorship
   c) Cost behavior   d) All of these

18. Which among the following capital structure theories say that, "firm can increase its value by increasing its proportion of debt in the capital structure"?
   a) Net Income Approach   b) Traditional Approach
   c) Net Operating Income Approach   d) None of these

19. According to Net Operating Income Approach the capital structure decision of the firm is:
   a) Relevant   b) Irrelevant
   c) Sometimes relevant otherwise non-relevant   d) None of these

20. Scientific inventory management techniques do not include:
   a) ABC Analysis   b) Economic Order Quantity
   c) Cash Flow Analysis   d) Application and mentoring inventory levels

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