

**MASTER OF COMMERCE
SECOND SEMESTER
FINANCIAL MANAGEMENT & CONTROL
MCM-203**

Duration : 3 hrs.

Full Marks: 70

(PART-A: Objective)

Time : 20 min.

Marks : 20

Choose the correct answer from the following:

1X20=20

1. 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
2. Wealth maximization is also known as:
 - a. Value maximization
 - b. Profit maximization
 - c. EBIT
 - d. None of the above
3. Profit maximization is concerned with:
 - a. Maximizing the net present value
 - b. Maximizing the EPS
 - c. Actions that increase profits
 - d. None of the above
4. 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
5. is long-term planning for making and financing proposed capital outlays.
 - a. Capital budgeting
 - b. Working capital management
 - c. Planning for capital
 - d. Inventory management
6. 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 Profit
 - b. Net present value
 - c. Capital value
 - d. Gross Profit
7. is the ratio of the average annual profits after taxes to the average investment in the projects.
 - a. External rate of return
 - b. Internal rate of return
 - c. Average rate of return
 - d. Pay-back Return
8. The pay back 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

9. Cost of capital means
- The present value of a past investment
 - The minimum rate of return that a firm must earn on its investment
 - The expected cash inflows
 - The expected cash outflows
10. is the combined cost of various sources of capital.
- Specific cost
 - Composite cost
 - Weighted average cost of capital
 - Both (b) & (c)
11. Given: risk free rate of return=15%, market return=20% and value of beta=1.5. What is the expected rate of return?
- 21.5
 - 22.5
 - 23.5
 - None of the above
12. is the cost of the opportunity foregone in to take up a particular project.
- Implicit cost
 - Explicit cost
 - Specific cost
 - Composite cost
13. Capital structure denotes the
- Financing mix
 - Capital mix
 - Equity mix
 - Debt mix
14. If the shareholders prefer regular income, how does it affect the dividend decision:
- It will lead to payment dividend
 - It is the indicator to retain more earnings
 - It has no impact on divided decision
 - Can't say
15. The Net Income approach was suggested by
- Modigliani and Miller
 - Ezra Solomon
 - Durand
 - Walter
16. A stable dividend policy refers to
- The consistency or lack of variability in the stream of dividends
 - Same dividend to be paid every year
 - Shareholder's wishes regarding dividends
 - Different dividend to be paid every year
17. Which of the following is not an application of working capital?
- day-to-day expenditure of business
 - current obligations for payment
 - expenditure in the usual course of business
 - expenditure to acquire capital
18. Which is not the long-term source of working capital?
- retained earnings
 - long-term debts
 - issue of shares
 - 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 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. Explain the objectives of financial management. 10
2. (a) What is capital budgeting? Enumerate briefly the major steps involved in it. 2+8=10
3. (a) Discuss the importance of cost of capital? 5+5=10
(b) A company has the following capital structure and after-tax costs for the different sources of funds used:

Sources of Funds	Amount (Rs.)	After-tax cost (%)
Debt	15,00,000	5
Preference Shares	12,00,000	10
Equity Shares	18,00,000	12
Retained Earnings	15,00,000	11
Total	60,00,000	

You are required to compute the weighted average cost of capital.

4. What is meant by capital structure? Give a critical appraisal of the Net Income approach to the problem of capital structure. 2+8=10
5. What do you mean by dividend policy? Explain the various factors which influence the dividend decision of a firm. 2+8=10
6. Define the term working capital. Describe the determinants of working capital in a business. 2+8=10
7. From the following information, calculate the net present value of the two projects and suggest which of the two projects should be accepted assuming a discount rate of 10%. 5+5=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

8. From the following details you are required to make an assessment of the average amount of working capital requirement of Star Ltd.

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Items	Average Period of Credit	Estimated for the first year (Rs.)
Purchase of material	6 weeks	25,00,000
Wages	1½ weeks	19,50,000
Overheads:		
Rent, rates etc.	6 months	1,00,000
Salaries	1 month	8,00,000
Other overheads	2 months	7,50,000
Sales (cash)	-	2,00,000
Sales (credit)	2 months	50,00,000
Average amount of stock and work-in-progress	-	4,00,000
Average amount of undrawn profit		3,00,000

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