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4 (Sem-5/CBCS) COM HC 2 (FoFM)

2022

COMMERCE

(Honours)

Paper : COM-HC-5026

(Fundamentals of Financial Management)

Full Marks : 70

Time : Three hours

The figures in the margin indicate full marks for the questions.

1. Answer **any ten** of the following questions :

(A) Choose the correct option of the following : **(any five)** $1 \times 5 = 5$

(a) Long term investment decision is also known as

(i) working capital

(ii) dividend decision

(iii) capital budgeting

(iv) None of the above

Contd.

(b) The overall cost of capital is also known as

- (i) marginal cost of capital
- (ii) variable cost of capital
- (iii) weighted average cost of capital
- (iv) specific cost of capital

(c) Capital structure represents

- (i) ratio between different forms of capital
- (ii) all liabilities
- (iii) all assets
- (iv) assets and liabilities

(d) The capitalization of profit is termed as

- (i) cash dividend
- (ii) bond dividend
- (iii) stock dividend
- (iv) property dividend

(e) Key financial function of a firm includes the following, except

- (i) investment decision
- (ii) dividend decision
- (iii) financing decision
- (iv) make or buy decision

(f) According to which model dividend policy has no effect on the market price of the shares and value of the firm ?

- (i) Walter's model
- (ii) M M model
- (iii) Gordon's model
- (iv) None of the above

(g) Capital budgeting deals with

- (i) cash Management
- (ii) management of working capital
- (iii) managing fixed assets
- (iv) None of the above

(h) Which is not payback method ?

- (i) Pay-off method
- (ii) Payout method
- (iii) Recoupment period method
- (iv) None of the above

(i) When should a project be accepted under profitability index (PI) ?

- (i) When $PI > 1.0$
- (ii) When $PI < 1.0$
- (iii) When $PI = 0$
- (iv) None of the above

(B) Write whether the following statements are True **or** False : **(any five)** $1 \times 5 = 5$

- (a) Cost of retained earnings is less than cost of equity.
- (b) Stable dividend does not mean a fixed dividend payout ratio.
- (c) Every financial decision should be based on cost-benefit analysis.
- (d) Working capital is also known as excess of current assets over current liabilities.
- (e) Profitability index is the relationship between present value of cash inflows and the present value of cash outflows.
- (f) The cost of capital is the minimum rate of return expected by its investors.
- (g) Stock dividend affects liquidity position of the company.
- (h) Receivables constitute a significant portion of the fixed assets.
- (i) Capital structure is the mix of preference and equity share capital.

2. Answer **any five** of the following questions in about **50** words each : $2 \times 5 = 10$

- (a) What is financing decision ?
- (b) What is permanent working capital ?
- (c) What do you mean by a capital structure ?
- (d) What is bond dividend ?
- (e) Write *two* importances of capital budgeting.
- (f) What do you mean by cash management ?
- (g) What is payback period ?
- (h) Define cost of capital.
- (i) What do you mean by accounting rate of return ?
- (j) What are the objectives of receivable management ?

3. Answer **any four** of the following questions in about **150** words each : $5 \times 4 = 20$

- (a) Briefly explain the sources of long-term financing.

- (b) Write a brief note on valuation of securities.
- (c) Discuss *five* factors determining working capital requirements.
- (d) Write the different types of dividend policies.
- (e) What is IRR method of capital budgeting ? Mention *two* advantages and *two* limitations of this method.
- (f) Why is wealth maximization objective considered as superior to profit maximization objective ? Write *five* reasons.
- (g) State the limitation of financial management.
- (h) Explain the significance of cost of capital.

4. Answer **any three** of the following questions in about **600** words each : $10 \times 3 = 30$

- (a) What is capital asset pricing model ? Discuss the various assumptions and elements of CAPM. $2 + (4 + 4) = 10$

- (b) Discuss the role and responsibilities of a finance manager in modern business organization.
- (c) Sunrise Enterprise is considering two mutually exclusive projects with the following cash flow stream :

Year	Project A	Project B
0	300000	300000
1	60000	130000
2	100000	100000
3	120000	80000
4	150000	60000

If the cost of capital to the firm is 12%, rank the two projects in terms of —

- (i) payback period, and
- (ii) net present value

(At 12% the present value of Re.1 received at the end of the 1st, 2nd, 3rd, and 4th years are 0.892, 0.797, 0.711, and 0.635 respectively) $5 + 5 = 10$

Contd.

(d) Radha & Company issues 10,000 preference shares at 10% and face value of the share is Rs. 100 each. The cost of issue is Rs. 2 per share. Calculate the cost of preference share capital if issued —

(i) at a premium of 10%, and

(ii) at a discount of 5%. $5+5=10$

(e) What is dividend ? Discuss the important factors which determine dividend policy of a company. $2+8=10$

(f) Discuss the disadvantages of excessive working capital and dangers of inadequate working capital encountered by a firm. $5+5=10$

(g) Explain the relationship between operating leverage and financial leverage.

(h) Discuss the modern method of capital budgeting.