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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)*** 1×5=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)** 1×5=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.

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- (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.  $2 + (4 + 4) = 10$

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- (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 1<sup>st</sup>, 2<sup>nd</sup>, 3<sup>rd</sup>, and 4<sup>th</sup> years are 0.892, 0.797, 0.711, and 0.635 respectively) 5+5= 10

- (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.