

**2020/TDC(CBCS)/ODD/SEM/
COMDSE-502T(A/B)/356**

**TDC (CBCS) Odd Semester Exam., 2020
held in March, 2021**

COMMERCE

(5th Semester)

Course No. : COMDSE-502T

Full Marks : 70

Pass Marks : 28

Time : 3 hours

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

Candidates have to answer *either* from
Option—A or Option—B

OPTION—A

Course No. : COMDSE-502T (A)

(FUNDAMENTAL OF FINANCIAL MANAGEMENT)

SECTION—A

Answer any *twenty* of the following as directed :

1×20=20

State whether the following statements are True or
False :

1. Traditionally the role of finance manager was restricted to acquisition and efficient allocation of funds.

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(Turn Over)

2. Perpetuity and annuity are two different concepts.
3. There is direct relationship between risk and return.
4. In case of uncertainty, the firm can anticipate future loss.
5. The main objective of financial management is maximization of profit.
6. Annuity table can be used for all kinds of cash flows.
7. The value of an asset is equivalent to the present value of the benefits associated with it.
8. Equity shares have a maturity period.
9. Cash flows from a project can be estimated accurately.
10. Discounting cash flow technique takes into account the time value of money.

Fill in the blanks with appropriate words of the following :

11. The return after the pay-off period is not considered in case of _____.

12. Depreciation is included in costs in case of _____.

13. A risky situation is better than an _____ situation.

14. Probability means the likelihood of happening an _____.

15. Net Present Value and Internal Rate of Return consider the _____ of money.

16. Capital budgeting is same as _____ decision.

17. Cost of preference share is more than the cost of _____.

18. Cost of capital comprises both business and _____ risks.

19. MM hypothesis assumes that _____ markets are perfect.

20. Cost of capital serves as _____ rate for capital investment decision.

State with reason whether the following statements are True or False :

21. Operating leverage exists if there are funds bearing fixed financial payments.

22. Financial leverage is calculated by dividing EBT by EBIT.

23. Trading on equity is used to decrease earning per share.

24. Combine leverage should be as low as possible.

25. According to Walter's dividend model, the optimum dividend payout ratio can be either zero or 100%.

26. Payment of dividend involves legal as well as financial consideration.

27. The declaration of bonus in lieu of dividend is allowed.
28. Premium received in cash is a source of bonus issue.
29. According to MM hypothesis, dividend model considers the dividend decision to be relevant in determining the value of the firm.
30. Walter's model is based on the relationship between r and k .

Answer the following questions in brief :

31. What is stable dividend policy?
32. What is dividend decision?
33. What is working capital?
34. Write the formula for gross operating cycle.
35. Write the meaning of optimum working capital.
36. Write the formula for EOQ with the meaning of each term.

37. What is inventory management?
38. Name the methods of cash forecasting.
39. What is meant by cash planning?
40. What is cash budget?

SECTION—B

Answer any *five* questions from the following :

2×5=10

41. What is financial management?
42. State any two functions of a finance manager.
43. State any two needs for capital budgeting.
44. State any two advantages of internal rate of return method.
45. State any two differences between marginal cost of capital and weighted average cost of capital.
46. What are meant by 'explicit cost' and 'real cost' of capital?

47. State any two objectives of inventory management.
48. State any two benefits of bonus issue from the viewpoint of shareholders.
49. State any two factors that affect dividend policy of corporate enterprise.
50. What is net operating income?

SECTION—C

Answer any *five* questions from the following :

8×5=40

51. Discuss the major financial decisions.
52. Explain the mechanics of calculating present value of cash flows giving suitable examples.
53. Using the information given below, compute the payback period under (a) traditional payback method and (b) discounting payback method and comment on the results :

Initial outlay—₹ 80,000

Estimated life—5 years

Profit after tax :

	₹
End of 1st year	6,000
" " 2nd year	14,000
" " 3rd year	24,000
" " 4th year	16,000
" " 5th year	Nil

Depreciation has been calculated under straight-line method. Cost of capital may be taken at 20% p.a. and the PV of ₹ 1 at 20% p.a. is given below :

Year	:	1	2	3	4	5
PV factor	:	0.83	0.69	0.58	0.48	0.40

54. Discuss the need and importance of capital budgeting.

55. Your company's share is quoted in the market at ₹ 20 currently. The company pays a dividend of ₹ 1 per share and the investor's market expects a growth rate of 5% per year.

(a) Compute the company's equity cost of capital.

(b) If the anticipated growth rate is 6% p.a., calculate the indicated market price per share.

(c) If the company's cost of capital is 8% and the anticipated growth rate is 5%, calculate the indicated market price if the dividend of ₹ 1 per share is to be maintained.

56. Calculate the weighted average cost of capital (before and after tax) from the following information. Assume that the tax rate is 55% :

Type of capital	Proportion in the capital structure	Before tax cost of capital
Equity capital	25%	24.44%
Preference capital	10%	27.29%
Debt capital	50%	7.99%
Retained earnings	15%	18.33%

57. Explain Modigliani-Miller hypothesis as to dividend together with its assumptions and shortcomings.

58. Discuss the factors affecting the dividend policy of a company.

59. Discuss the objectives of working capital management.

60. Harish Gupta wishes to start a trading business and furnishes the following particulars :

- (i) Estimated annual sales ₹ 10,80,000
- (ii) Estimated fixed expenses ₹ 2,100 p.m. of which depreciation amounted to ₹ 500 and estimated variable expenses chargeable to Profit and Loss Account equal 5% of sales
- (iii) Expected profit on purchases @ 20%
- (iv) Expected stock turnover 5 times
- (v) The sales and purchases will occur evenly throughout the year
- (vi) All purchases will be made on one month's credit
- (vii) Customers will be allowed two months' credit
- (viii) 25% of sales will be made against cash
- (ix) Debtors may be calculated on the basis of sales
- (x) A cash balance equal to one month's expenses is desired to be maintained

You are required to calculate Harish's average capital requirement.