

2022

COMMERCE

(Honours Core Course)

COMM-HCC-5026

(Fundamentals of Financial Management)

Total Marks : 60

Time : 3 Hours

Total number of printed pages - 4

The figures in the margin indicate full marks for the questions

(Simple Calculator is Permissible)

1. Choose the most appropriate answer from the multiple choices given against each : 1×7=7

(a) What is ignored in Profit maximisation :

(i) Wealth

(ii) Net Value

(iii) Risk

~~(iv) Time value of money~~

(b) Financial Risk is associated with –

(i) Risk due to inflation

(ii) Market risk

~~(iii) Capital structure of a company~~

(iv) Currency Risk

(c) Capital Budgeting deals with :

(i) Cash Management

~~(ii) Managing fixed assests~~

(iii) Management of working capital

(iv) None of the above

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- (d) Time value of money is considered in :
- (i) Pay-Back period method
 - (ii) Accounting Rate of Return Method
 - (iii) Discounted Cash Flow Method
 - (iv) None of the above
- (e) EBIT stands for :
- (i) Earning before interest but after tax
 - (ii) Earning before income and tax
 - (iii) Earning before interest and tax
 - (iv) Earning before tax but after interest
- (f) According to which model dividend policy has no effect on the market price of the share and value of the firm :
- (i) Walter's Model
 - (ii) MM Model
 - (iii) Gordon's Model
 - (iv) None of the above
- (g) Gross working capital is the capital invested in :
- (i) Total current assets of the enterprise
 - (ii) Current assets minus current liabilities
 - (iii) Positive current assets
 - (iv) None of the above
2. Answer the following questions : 2×4=8
- (a) What is Leverage?
 - (b) What is venture capital?
 - (c) What is Lease financing?
 - (d) What do you mean by systematic risk?

3. Answer the following questions (any three) : 5×3=15
- (a) State the advantage and disadvantage of pay-back period method.
 - (b) What are the various factors determining capital structure.
 - (c) What are the various types of dividend policy?
 - (d) Distinguish between operating leverage and financial leverage.
 - (e) A 5 year ₹ 100 debenture of a firm can be sold for a net price of ₹ 96.50. The coupon rate of interest is 14% per annum, the debenture will be redeemed at 5% premium on maturity. The firms' tax rate is 40%. Compute the after tax cost of debentures.
4. Answer the following questions (any three) : 10×3=30
- (a) State the meaning of dividend policy? Explain the Walter's model of relevance of dividend decision. 2+8=10
 - (b) What is financial management? Explain the objectives of financial management. 2+8=10
 - (c) A company has to select one of the two alternative projects whose particulars are given below : 10

Particulars	Project A (Rs.)	Project B (₹)
Initial Outlay, Net	1,18,720	1,00,670
Cash flow at the end of the year		

Particulars	Project A (Rs.)	Project B (₹)
Year 1	1,00,000	10,000
Year 2	20,000	10,000
Year 3	10,000	20,000
Year 4	10,000	1,00,000

The company can arrange necessary funds at 8%. Compute NPV and IRR of each project and comment on the results. The PV factor of Re 1 received at the end of each year at different rate is given as under.

Year	8%	10%	12%	14%
1	0.926	0.909	0.893	0.877
2	0.857	0.826	0.797	0.770
3	0.794	0.751	0.712	0.675
4	0.735	0.683	0.636	0.592

- (d) (i) Explain in brief the Net Operating Income Approach of capital structure. 5
- (ii) The shares of a company are setting at ₹ 40 per share and it had paid a dividend of ₹ 4 per share last year. The investors 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 7% P.A. Calculate the indicated market price per share. 5
- (e) (i) What are the different types of working capital. 5
- (ii) What are the various objectives of Inventory management. 5

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