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

2021

(Held in 2022)

COMMERCE

(Honours)

Paper : COM-HC-5026

***(Fundamentals of Financial Management)***

Full Marks : 80

Time : Three hours

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

1. (A) Choose the correct option of the following : 1×5=5
- (i) Which of the following is a part of financial decision-making ?
- (a) Investment decision
- (b) Financing decision
- (c) Dividend decision
- (d) All of the above

Contd.

- (ii) Capital budgeting is a part of
- (a) investment decision
  - (b) working capital management
  - (c) capital structure
  - (d) dividend decision
- (iii) Cost of capital refers to
- (a) floatation cost
  - (b) dividend
  - (c) minimum required rate of return
  - (d) None of the above
- (iv) The working capital ratio is
- (a) working capital/sales
  - (b) working capital/total assets
  - (c) current assets/current liabilities
  - (d) current assets/sales

- (v) The long-term objective of financial management is to
- (a) maximize earning per share
  - (b) maximize the value of the firm's common stock
  - (c) maximize return on investment
  - (d) maximize market share
- (B) Write whether the following statements are True **or** False : 1×5=5
- (i) Profit maximization ignores risk and uncertainty.
  - (ii) The value of a share is equal to the present value of its expected future dividend.
  - (iii) The NPV method does not consider the time value of money.

(iv) Retained earnings do not involve any cost.

(v) Gross working capital means total current assets.

2. Answer the following questions :  $2 \times 5 = 10$

(a) What is financial management ?

(b) What is dividend ?

(c) What is internal rate of return ?

(d) What is marginal cost ?

(e) What is leverage ?

3. Answer **any four** from the following questions :  $5 \times 4 = 20$

(a) Write a brief note on valuation of equity shares.

(b) Explain various types of dividend.

(c) What is optimum capital structure ? Explain.

(d) State the advantages and disadvantages of pay-back period method.

(e) Explain the main objective of inventory management.

(f) Explain the main tools of cash planning and control.

4. Explain the characteristics of financial management. Describe the goals of financial management.  $4+6=10$

**Or**

Discuss the various factors that affect bond value. Also explain the steps in bond valuation.  $5+5=10$

5. Define capital budgeting. Discuss the capital budgeting process.  $2+8=10$

**Or**

A company has to select one of the two alternative projects whose particulars are given below :

Particulars	Project A (Rs.)	Project B (Rs.)
Initial outlay :	1,18,720	1,00,670
Net cash flow at the end of the year :		
1st year	1,00,000	10,000
2nd year	20,000	10,000
3rd year	10,000	20,000
4th year	10,000	1,00,000

The company can arrange necessary fund at 8%. Compute NPV of each project and comment on results. 10

[The PV factor of Re.1 received at the end of 1st year is 0.926, 2nd year is 0.857, 3rd year is 0.794 and 4th year is 0.735.]

6. Explain the concept of cost of capital. Also explain the methods for calculating cost of capital. 2+8=10

**Or**

- (a) A company plans to issue 1000 new shares of Rs.100 each at par. The flotation costs are expected to be 5% of the share price. The company pays a dividend of Rs.10 per share initially and the growth in dividends is expected to be 5%. Compute the cost of new issue of equity shares. 5
- (b) Distinguish between operating leverage and financial leverage. 5

7. State the meaning of dividend policy. Explain the Modigliani and Miller hypothesis of dividend decision. 2+8=10

**Or**

Explain the concept and determinants of working capital. 2+8=10