



BRAINWARE UNIVERSITY

Course – MCOM

Financial Management & Business Valuation (MCM202)

(Semester – 2)

Time allotted: 3 Hours

Full Marks : 70

[The figure in the margin indicates full marks. Candidates are required to give their answers in their own words as far as practicable.]

Group –A

(Multiple Choice Type Question)

10 x 1 = 10

1. *Choose the correct alternative from the following*

(i) Basic objective of a firm is-

- | | |
|------------------------|------------------------|
| a. Profit maximization | b. Wealth maximization |
| c. Value maximization | d. Sales maximization |

(ii) Formula of DOL is

- | | |
|------------------------------|-----------------------------|
| a. Contribution x fixed cost | b. Contribution -fixed cost |
| c. Contribution/EBIT | d. EBIT/contribution |

(iii) Degree of financial leverage considers

- | | |
|-----------------------------|---------------------------------|
| a. Fixed operating cost | b. Dividend on preference share |
| c. Dividend on equity share | d. All of the above |

(iv) EOQ is calculated on the basis of assumptions like

- | | |
|-----------------------------|---------------------|
| a. Fixed annual consumption | b. Fixed order cost |
| c. Fixed carry cost | d. All the above |

(v) Tax shield benefit is available on -

- | | |
|-------------------------|----------------------|
| a. Interest | b. Dividend |
| c. Market price of bond | d. None of the above |

- (vi) Formula of working capital is-
- a. Total current assets
 - b. Total current liabilities
 - c. Total CL-Total CA
 - d. Total CA- Total CL
- (vii) In WACC calculation, the cost of capital will frequently change with weight
- a. Market value of fund invested
 - b. Optimum fund structure
 - c. Cost of fund used
 - d. All of them
- (viii) NPV is zero when discount rate is-
- a. Cost of capital
 - b. Accounting rate of return
 - c. Internal rate of return
 - d. None of the above
- (ix) Suppose a Console is paying interest of Rs 100. Nominal value is Rs 1,000. Discounting rate is 10%. Then value of the Console is
- a. Rs 100
 - b. Rs 1,000
 - c. Rs 10,000
 - d. None of the above
- (x) EVA is calculated by the formula-
- a. PAT- (WACC x capital employed)
 - b. NOPAT- (WACC x capital employed)
 - c. EBIT- (WACCx capital employed)
 - d. None of the above

Group – B

(Short Answer Type Questions)

3 x 5 = 15

Answer any *three* from the following

2. Consider following investment project.

Year (n)	A
0	-42,000
1	32,400
2	33,400
3	32,500
4	32,500
5	33,000

Calculate net future value and justify its acceptance when rate is 12%.

[5]

3. A bond of nominal value Rs 1,000 with 5 years duration, issued a coupon rate of 12%. 10% of issue price is floating cost. Tax rate rate is 30%. What is the cost of capital? Explain in this context the term coupon rate, floating cost. [5]
4. What is YTM of the bond that pays annual coupon at 8% and has 5 years to maturity, if current price is Rs 1050, Rs 1000 or Rs 950. . [5]
5. A project costs is Rs. 1,00,000. Expected return is Rs 25,00 p.a. for 6 years. Then calculate
(a) pay back.
(b) discounted pay back at 15% rate. [2+3]
6. What is working capital? Give formula. How it is funded by using short and long term finance? [2+3]

Group – C

(Long Answer Type Questions)

3 x 15 = 45

Answer any *three* from the following

7. (a) What do you mean by PV and FV? [5]
(b) Suppose you have Rs 12,000 today. You want to invest it for 8 years, so that you can pay your daughters fees of Rs. 40,000.
(i) At what rate you should invest money to have required sum after 8 years.
(ii) If you need Rs 40,000 after 8 years at 12%, how much you have to invest today? [10]
8. S Ltd is engaged in long term project. They have issued a bond whose current market price is Rs 120. Relevant information are -
face value Rs 100; coupon rate 15%; period of coupon payment once in a year; time remaining for maturity 6 years; redemption value Rs 110; Current market price Rs 124.
(a) What is current yield of bond? [5]
(b) If investors buy bond today and holds till maturity, what return would he realize? [5]
(c) Assume that the yield in the market has fallen to 9%, what impact on price of the bond you see/ Work out the price of bond after 2 years assuming that yield remains at 9%. [5]

9. A share at present is trading at RS 350. Market estimate of next year is Rs 420.
- (a) What is growth in price of share? [3]
- (b) If current dividend is 20 per share, what is dividend expected from the firm in coming year? [3]
- (c) What is expectation of return by investors? Would it be same as growth in price of share? Why or why not? [3]
- (d) Investor decides to sale share prior to anticipated dividend. At what price he sells his share? [3]
- (e) Will there be any difference in return if investor sells share before or after dividend? Why? [3]
10. Prepare working capital forecast from the following information-
- Annual production 10 lakh units; Raw material 40%, wages 20%, overhead 20%; Raw materials in store 3 month; Work in progress 2 months; finished gods 3 months; Credit period to creditors 4 month; credit period to customers 3 months; cash balance 15,000; outstanding wages and other expenses 15 days; selling price Rs 10; contingencies 10% [15]
11. (a) Distinguish between net cash flow and net profit. Which one is more important in capital budgeting? [7]
- (b) What is free cash flow? How can you calculate it? Explain with example. [8]