BRAINWARE UNIVERSITY

Course – M.Com.

Financial Management and Business Valuation (MCM 202)

(Semester – 2)

Time allotted: 3 Hours **Full Marks : 70**

[The figures 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 Questions) **10 x 1 = 10**

1. Choose the correct answer from the given alternatives: **(Answer All)**

i) A company wants to know how many years it will take before the accumulated cash flows from an investment equal the initial investment cost, without taking the time value of money into account.

A.Payback period
B.Discounted payback period
C.Internal rate of return
D.Net present value

ii) A company wants to know how many years the accumulated cash flows from an investment become equal the initial investment cost, without taking the time value of money into account. Which method should be used ?

A.Payback period
B.Discounted payback period
C.Internal rate of return
D.Net present value

iii) Which of the following limitations is common to the calculations of payback period,discounted payback,internal rate of return,NPV

A.They do not consider the time value of money
B.They require multiple trial and error calculations
C.They require knowledge of a company's cost of capital
D.They rely on the forecasting of future data

iv) Which one of a firm's sources of new capital usually has the lowest after-tax cost?

A. Retained earnings
B. Preference shares
C. Bonds
D. Ordinary shares

v) What is the weighted average cost of capital?

A. The rate of return on assets that covers the costs associated with the funds employed
B. The minimum rate a firm must earn on high-risk projects
C. The cost of the firm's equity capital at which the market value of the firm will remain unchanged

D. The maximum rate of return on assets

vi) Which ONE of the following factors might cause a firm to increase the debt in its financial structure?

A. An increase in the corporate tax rate
B. Increased economic uncertainty
C. An increase in the price/earnings ratio
D. A decrease in the interest cover ratio

vii) What is the weighted average cost of capital?

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B. The minimum rate a firm must earn on high-risk projects
C. The cost of the firm's equity capital at which the market value of the firm will remain unchanged
D. The maximum rate of return on assets

viii) What is the operating cycle of a manufacturing company given the following?
Inventory days 30 days, Days sales outstanding 38 days, Trade payables days 44 days

A. 112 days
B. 68 days
C. 36 days
D. 24 days

ix) Which of the following ratios would most likely be used by management to evaluate short-term liquidity?

A. Return on total assets
B. Sales to cash
C. Accounts receivable turnover
D. Acid test (quick) ratio

x) The shares of Fargo Co are selling for \$85. The dividend after one year is expected to be \$4.25 and is expected to then grow at a rate of 7%. The corporate tax rate is 30%
What is the firm's cost of equity?

A. 5.0%
B. 8.4%
C. 12.0%
D. 12.35%

Group – B

(Short Answer Type Questions)

Answer any three Questions **3 x 5 = 15**

2. Distinguish between Temporary and Permanent Working Capital.

3. What is positive Working Capital?

4. Justify why Discounted Pay Back Period is always higher than normal one.

5. How does NPV concept help in Buy or Rent Decision?

6. How does NPV concept help in Introduction of a new product in Business?

Group –C
(Long Answer Type Questions)

Answer any three Questions **3 x 15 = 45**

7. What is your idea about PV of Cash flow. A person is offered contract service for 5 years with fixed annual salary of Rs 1 Lakh with provision ofv annual increment 10?. What is PV of total salary if required rate return is 12% ?

8.What are the determinants of Capital Structure decision? Explain the concept of Capital Budgeting Decision in structured manner.

9.What is the role of Financial Leverage of a firm? An investment of Rs 3500 is expected to generate cashflow of Rs 2000 per year for the next 2 years. Should the investment be justified with RRR 8% ?

10. What do you understand by the term WACC? Explain Riskyness of a firm under different combinations of Operating Leverage and Financial Leverage.

11. What do you understand by the term, Profitability Index”? Calculate NPV and PI of two Projects, X and Y and justify which project should be accepted from the following data.

	X	Y
PV of Cash Inflows (Rs /Lakh)	4	2
Initial Cash Outlay (Rs /Lakh)	2	0.8