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3 SEM TDC FIMT 2 (Sp)

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(December)

COMMERCE

(Speciality)

Course : 302

(Financial Management)

Full Marks : 80

Pass Marks : 24

Time : 3 hours

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

1. (a) Fill in the blanks : 1×4=4

- (i) _____ is the life blood and nerve centre of a business concern.
- (ii) When the value of current asset increases, the size of net working capital _____.
- (iii) The cost of capital is the _____ the company has to pay to various suppliers of funds in the company.

(iv) The payment of dividend at the usual rate is termed as _____ dividend.

(b) Write True or False : 1x4=4

(i) Corporation finance is a wider term than business finance.

(ii) Net working capital is the excess of current assets over current liabilities.

(iii) Operating Leverage = $\frac{\text{Operating Profit}}{\text{Contribution}}$

(iv) Dividend policy of a firm affects both the long-term financing and shareholders' wealth.

2. Write short notes on any four of the following : 4x4=16

(a) Profit maximisation

(b) Working capital cycle

(c) Optimal capital structure

(d) Optimal pay-out ratio

(e) Ploughing back of profit

3. (a) What is 'Finance Function'? Critically analyze the functions of financial manager in a large-scale industrial establishment. 2+12=14

(b) "Maximization of profit is regarded as the proper objective of investment decisions but it is not as exclusive as maximising shareholders' wealth." Comment. 14

4. (a) Define 'working capital'. What are the factors that are to be considered while estimating the working capital needs of a firm? 3+11=14

Or

(b) The following information has been extracted from the cost sheet of a manufacturing concern :

	₹ (Per Unit)
Raw materials	45
Direct labour	20
Overheads	<u>40</u>
	105
Profit	<u>15</u>
Selling Price	<u>120</u>

The following further information is available :

(i) Raw materials are in stock on an average of two months

(ii) The materials are in process on an average for 4 weeks. The degree of completion is 50% in all respects

- (iii) Finished goods are in stock on an average of one month
 - (iv) Time lag in payment of wages and overheads is 1½ weeks
 - (v) Time lag in receipts of proceeds from debtors is 2 months
 - (vi) Credit allowed by suppliers is 1 month
 - (vii) 20% of output is sold against cash
 - (viii) The concern expects to keep a cash balance of ₹ 1,00,000
 - (ix) Take 52 weeks per annum
 - (x) Calculation of debtors may be made at selling price
 - (xi) The manufacturing concern produces 14400 units in the year
- You are required to prepare a statement showing the working capital requirements of the concern. 14

5. (a) What do you mean by 'investment decision'? What are various investment decision techniques? Point out the advantages and disadvantages of the following two methods of capital budgeting :
- (i) Pay-back period method
2+4+4+4=14
 - (ii) Net present value method

- Or
- (b) What do you mean by 'financial leverage'? Distinguish between Financial Leverage and Operating Leverage. Do you think that they are related to capital structure? 3+6+5=14
6. (a) Discuss various types of dividend policies. State various forms of dividends on the basis of payments. 8+6=14
- Or
- (b) Explain the Modigliani-Miller theory of dividend distribution. Also point out its limitations. 10+4=14
