Cooch Behar Panchanan Barma University
Assignment 1
M.Com. 2nd Semester
Paper: COM 203 (Financial Management)

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## GROUP-A

Answer the following questions: 5x5=25

1. What is 'cost of capital'? How is the concept of cost of capital used in making investment and financing decisions? 2+3=5
2. What is capital rationing? Narrate the rules of choosing investments under the situation of capital rationing. 2+3=5
3. Discuss the merits and limitations of Payback Period Method. 5
4. What are the Discounted Cash Flow methods? What is the purpose of Discounting? 3+2=5
5. Define IRR. How is it computed and used in financial decision-making? 2+3=5

## GROUP-B

Answer the following questions: 10+10+5=25

6. State whether each of the following statements is True or False: 1x10=10
   i. The main aim of finance function is to maximize the profits
   ii. Investment decisions are outside the purview of financial decisions.
   iii. Composite cost refers to the cost of equity and preference share capital
   iv. Retained earnings do not involve any cost.
   v. Ownership securities are represented by debentures.
   vi. Equity shares cannot be redeemed during the life time of a company.
   vii. Preference shares are entitled to fixed dividend irrespective of the level of earnings.
   viii. Equity shareholders have a residual claim on the assets of the company.
   ix. Debentures do not carry any voting rights.
   x. Net Present Value method takes into account the earnings over the entire life of the project.

7. Fill in the blanks: 1x10=10
   i. Cost of capital is the _____________rate of return expected by its investors.
   ii. Preference shareholders have preference in payment of ________________.
   iii. A fixed rate of ____________ is payable on debentures.
   iv. The effective cost of debentures is ____________ as compared to shares.
   v. Capital budgeting is also known as ______________ decision.
   vi. The decision regarding short term assets is designated as _____________ decision.
   vii. In case of ______________ projects, acceptance of one project results into rejection of another project.
   viii. The simplest capital budgeting technique is _____________.
   ix. When cash flows are equal *Pay Back Period* = _________________.
   x. Discounted cash flow techniques adjust the cash-flows over the life of a project for the ______ value of money.

8. Select the most appropriate answer: 1x5=5

i. The appropriate objective of an enterprise is:
   a) Maximisation of sales
   b) Maximisation of owner’s wealth
   c) Maximisation of profits

ii. Financial decisions involve:
   a) Investment, financing and dividend decisions
   b) Investment, financing and sales decisions
   c) Financing, dividend and cash decisions

iii. According the NPV technique, a project is acceptable if:
   a) Its NPV $< 0$
   b) Its NPV $= 0$
   c) Its NPV $> 0$

iv. IRR is the rate at which the net present value of the investment proposal is
   a) $< 0$
   b) $= 0$
   c) $> 0$

v. If the IRR is greater than the cost of capital the funds invested
   a) The firm will earn more than their cost
   b) The firm will earn less than their cost
   c) The firm will earn equal to their cost