



MCO (F) 96

**M.Com. (Final) Examination, June 2009
(SIM)
COMMERCE
Paper – I : Financial Management**

Time : 3 Hours

Max. Marks : 90

SECTION – A

Answer **any three** questions from the following. **Each** question carries **15** marks.

(3×15=45)

1. Discuss the methods used for evaluating and ranking of investment proposals. Compare the IRR method with the NPV method.
2. Define working capital. Explain the factors influencing working capital requirements of an organisation.
3. A limited company is considering investing in a project requiring a capital outlay of Rs. 2,00,000. Forecast for annual income after depreciation but before tax is as follows :

Year	EBT Rs.
1	1,00,000
2	1,00,000
3	80,000
4	80,000
5	40,000

Depreciation may be taken as 20% on original cost and taxation at 50%.

P.T.O.



You are required to evaluate the project according to the following methods :

- i) Payback Method
- ii) Average Rate Return Method
- iii) Net Present Value Method
- iv) Internal Rate of Return Method
- v) Profitability Index Method

4. A limited company has the following capital structure :

	Rs.
Equity share capital (2,00,000 shares)	40,00,000
6% Preference shares	10,00,000
8% Debentures	30,00,000
	80,00,000

The market price of the company's equity share is Rs. 20. It is expected that company will pay a current dividend of Rs. 2 per share which will grow at 7%. The tax rate may be presumed at 50%. You are required to compute the following :

- a) Weighted average cost of capital of the existing capital structure.
 - b) The new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 10% debentures. This would result in increasing the expected dividend to Rs. 3 and the price of equity share will fall to Rs. 15 per share.
5. Explain Walter's formulation on dividend policy. How far does it explain the dividend practices of companies ?

SECTION – B

Answer **any three** questions. **Each** carries **10** marks. **(3×10=30)**

- 6. Explain the various techniques used for incorporating risk factor in capital budgeting decisions.
- 7. What are the main functions of the modern finance manager ? Explain.



8. Explain the factors that determine the capital structure of a firm.
9. From the following details calculate :
 - a) Safety stock
 - b) Reorder level
 - c) Maximum level of stock

Particulars :

Economic Order Quantity = 500 units

Lead Time = 3 weeks

Weekly usage = 50 units

Weeks of safety stock desired by the firm = 2 weeks

10. Determine the price of the equity share using Gordon's model when a company earns Rs. 10 per share and pays 25% dividend. The cost of capital is 10% and the rate of return expected is 10%.

SECTION – C

11. Write short notes on **three** of the following. **Each** carries **5** marks. **(3×5=15)**
 - a) Types of working capital
 - b) Capital rationing
 - c) Time value of money
 - d) Optimum capital structure
 - e) Forms of dividends
 - f) EBIT-EPS Analysis.
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