MC (F) 691

M.Com. (Final) Examination, June 2009
(Non-SIM Scheme) (Compulsory)
FINANCIAL MANAGEMENT (Paper – I)

Time : 3 Hours | Max. Marks : 100

Answer **any five** questions. **Each** question carries **twenty** marks :

1. "It has traditionally been argued that the objective of a company is to earn profit, hence the objective of financial management is also profit maximization". Comment.

2. Define capital budgeting. Discuss the different techniques of capital budgeting.

3. Discuss the factors relevant in determining the capital structure.

4. Give a critical appraisal of the Modigliani and Miller approach to the problem of capital structure.

5. What are salient features of Foreign Exchange Market in India ?

6. Explain the factors influencing dividend policy of a company in India.

7. Two projects A and B each requiring an investment of Rs. 10,00,000 have an economic life of 4 years and 6 years respectively. The cash infolw from these two projects are expected to be as follows :

Year	**Project A Rs.**	**Project B Rs.**
1	50,00,000	1,00,000
2	4,00,000	2,00,000
3	3,00,000	3,00,000
4	1,00,000	4,00,000
5	–	4,00,000
6	–	1,00,000

P.T.O.

Which project is advisable on the basis of :

1) Pay back period
2) Average rate of return
3) Net present value
4) Internal Rate of Return

8. Presently a firm has a capital structure exclusively comprising of a Equity Shares amounting to Rs. 10,00,000 of Rs. 100 each. The firm now wishes to raise additional Rs. 10,00,000 for expansion. The firm has four alternative financial plans.

a) It can raise entire capital by issuing equity shares of Rs. 100 each.
b) It can raise 50% by issuing Rs. 100 equity shares and 50% by issuing 5% debentures.
c) It can raise entire amount by issuing 6% debentures.
d) It can raise 50% by issuing equity shares of Rs. 100 each and 50% as 5% preference share capital.

Assume EBIT is Rs. 1,20,000, which financing plan should the firm select ?

9. The capital structure of Bombay Traders Limited as on 31-3-2006 is as follows.

Equity capital (100 lakhs equity shares of Rs. 10 each)	-	10,00,00,000
Reserves	-	2,00,00,000
14% debentures of Rs. 100 each	-	3,00,00,000

for the year ended 31-3-2006 the company has paid equity dividend at 20%. The company dividend is likely to grow by 5% every year. The equity shares are now traded at Rs. 80 per share in the stock exchange. Income tax rate applicable to the company is 50%.

Required :

a) The current weighted average cost of capital.

b) The company has plans to raise a further Rs. 5 crores by way of long term loan at 16% interest. When this takes place the market value of equity share expected to fall to Rs. 70 per share ? What will be the new weighted average cost of capital ?

10. Write short notes on **any four** of the following. **Each** sub-question carries **5** marks :

a) Net present value

b) Sensitivity analysis

c) Finance functions

d) Optimum capital structure

e) Bonus shares

f) Risk analysis in capital budgeting.