

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	Project
	$\mathbf{A}$	В
	Rs.	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

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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?

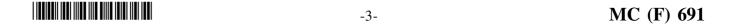
9. The capital structure of Bombay Traders Limited as on 31-3-2006 is as follows.

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.