MCO (F) 96

M.Com. (Final) Examination, June 2010
(SIM)
COMMERCE
Paper – VI : Financial Management

Time : 3 Hours Max. Marks : 90

SECTION – A

Note : Answer **any three** questions. **Each** question carries **15** marks. **(15×3=45)**

1. Define working capital. Bring out the role of various constituents of working capital.

2. What are the basic components of capital budgeting analysis ? Explain the difference between traditional techniques and D.C.F. techniques of capital budgeting.

3. Explain the various factors which determine the dividend policy of a company. Name different types of dividends.

4. A company with 12% cost of capital and limited investment funds of Rs. 4,00,000/- is evaluating the desirability of several investment proposals.

Project	**Initial investment Rs.**	**Life (Years)**	**Cash flow Rs.**
A	3,00,000	2	1,87,600
B	2,00,000	5	66,000
C	2,00,000	3	1,00,000
D	1,00,000	9	20,000
E	3,00,000	10	66,000

i) Rank the projects according to the profitability index and NPV methods.

ii) Determine the IRR of three projects in their order of merit.

P.T.O.

5. A Limited Company has the following capital structures

	Rs.
Equity share capital (2,00,000 shares)	40,00,000
6% Pref. 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% for ever. The tax rate may be presumed at 30% you are required to compute.

a) A weighted average cost of capital of the existing 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 leave the growth rate unchanged but the price of share will fall to Rs. 15/- per share.

SECTION – B

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

6. Explain the differences between NOI approach and NI approach of capital structure.

7. What do you mean by capital assets pricing model ? Explain.

8. ABC Ltd., belongs to a risk class of 10%. It has currently outstanding 25,000 shares of Rs. 100/- each. The firm is contemplating a declaration of dividend of Rs. 5/- per share at the end of current financial year. The company expects to have a net income of Rs. 2.5 and has a proposal for making new investments of Rs. 5 lakh.

   Show that under MM assumption the payment of dividend does not affect the value of the firm.

9. X Ltd., is considering three different plans to finance its total project cost of Rs. 100 Lakh : A, B and C

	Plan A	Plan B	Plan C
Equity capital (Rs. 100 per share)	50 lakh	34 lakh	25 lakh
10% Debentures	50 lakh	66 lakh	75 lakh
	100 lakh	**100 lakh**	**100 lakh**

Sales for the first 3 years are estimated at Rs. 100 lakh, Rs. 125 lakh and Rs. 150 lakh respectively. Estimated profit before interest and taxes is 10%. The tax rate is 35%. Compute EPS in each of the 3 alternative financing plans.

10. How the objective of wealth maximisation is superior to the objective of profit maximisation.

SECTION – C

Note : Answer **any three** questions. **Each** question carries **5** marks. **(5×3=15)**

11. a) What are the functions of a modern finance manager ?

b) Define 'uncertainty' and distinguish between certainty.

c) Write a short note on Inventory management.

d) Calculate the sum of money to be received after 3 years when Rs. 10,000/- is deposited at an interest of 10% compounded annually.

e) What is EBIT - EPS analysis ?