This question paper contains 2 printed pages.

5230

Your Roll No . . .

B.Sc. (Prog.) / II / NS **J**

Paper EL 21 (VI)— FINANCIAL MANAGEMENT

(N.C.— Admissions of 2005 onwards)

Time : 2 hours *Maximum Marks* : 38

(Write your Roll No. on the top immediately on receipt of this question paper.)

Question No. 1 is compulsory.
Attempt any ***three*** *questions from the rest*

Use of non-scientific calculator is permitted.

Financial tables be provided.

I. State whether the following statements are TRUE or FALSE:

(a) The total interest received will be same irrespective of the fact whether compounding is done yearly or semi-annually

(b) Financial risk refers to variability in operating profit due to changes in Sales.

© Discounted cash flow techniques take into account the time value of money

(d) Different sources of funds have a specific cost of capital related to that source only

(e) EBIT is also known as operating profits

(1 * 5 = 5)

II (a) Why do firms follow a Policy of Stable Dividends? (3)

(b) Find out IRR on the basis of following data:

Details	Amount (Rs)
Cost of the Project	4, 00,000
Cash Inflows.	
Year I	1, 00,000
Year II	1, 50,000
Year III	1, 25,000
Year IV	1, 25,000
Year V	1, 00,000
Salvage Value	N I L

(8)

III. (a) What is capital budgeting? Explain various types of capital budgeting proposals. (3)

(b) There are two identical firms AE and AD. The firm AD has 10% Debentures of Rs. 8, 00,000 while the firm AE has no debt. EBIT of each firm is Rs. 2, 00,000. The cost of equity of firm AD is 16% and that of firm AE is 13%. Find the market value of the firm AE and AD, and the overall cost of capital of each firm (8)

Turn over

IV. (a) (i) Explain the arbitrage process of MM model in support of irrelevance of dividends

(4)

IV. (a) (ii) What is an operating cycle? How is it important for the management of working capital?

(2 + 2 = 4)

IV. (b) Calculate the present value of Rs 8000 (i) Received at the end of five years. (ii) Received one year from now and (iii) Received at the end of twenty years Assume a 8% time preference rate.

(3)

V The Balance sheet of Grow More Limited is as under

Liabilities	Amount (Rs)	Assets	Amount (Rs
Equity Capital	15,00,000	Fixed Assets	35,00,000
Retained Earnings	5,00,000	Current Assets	15,00,000
10% Long Term Debt	20,00,000		
Current liabilities	10,00,000		
Total	**50,00,000**	Total	**50,00,000**

The company's total assets turnover is 3 2, its fixed costs are Rs. 26, 00,000 and its variable cost ratio is 40% The tax rate is 40%. Calculate for the company different types of Leverages given that the face value of each equity share is Rs 100

(11)