Exam. Code : 108503
Subject Code : 2115

B.Com. 3rd Semester

FINANCIAL MANAGEMENT

Paper–BCG–305

Time Allowed—3 Hours] [Maximum Marks—50

Note :— Attempt **FIVE** questions in all selecting at least **ONE** question from each section. The **fifth** question may be attempted from any section. Each question carries **10** marks.

SECTION—A

1. Explain the mechanics of calculating the present value of cash flows. How does the discounting and compounding help in determining the sinking fund and capital recovery ?

2. X Ltd wishes to raise additional finance of Rs. Ten lakhs for meeting its investment plans. It has Rs. 2,10,000 in the form of retained earnings available for investment purposes. The following are further details :

(1)	Debt/equity mix	30%/70%
(2)	Cost of debt upto Rs. 1,80,000	10% (before tax)
	Beyond Rs. 1,80,000	16% (before tax)
(3)	EPS	Rs. 4
(4)	Dividend payout	50% of earnings

(5)	Expected growth rate in dividend	10%
(6)	Current market price per share	Rs. 44
(7)	Tax rate	50%

You are required to :

(i) To determine the pattern of raising the additional finance

(ii) To determine the post-tax average cost of additional debt

(iii) To determine the cost of retained earnings and cost of equity

(iv) Compute the overall weighted average after tax cost of additional finance.

SECTION—B

3. Critically examine the MM approach to capital structure. Explain with suitable example the arbitrage process of MM approach to the equilibrium level.

4. Differentiate between the business risk and financial risk of a firm ? How they are measured by leverage ?

SECTION—C

5. Explain briefly the recommendations of Chore committee for working capital management.

6. Explain the various approaches of Working Capital Management. What are the determinants of Working Capital Management ?

SECTION—D

7. Discuss the factors and conditions that are relevant for in evolving a dividend policy as well as those relating to the issue of bonus shares.

8. Compare and contrast NPV Vs. IRR as method of appraising capital investments. Which method is better and why ?