Class–MCom Sem II
Subject – FINANCIAL MANAGEMENT
Paper- MC-202

Time Allowed : 3 Hrs   Maximum Marks : 100

Section – A

1. Attempt any 10 questions.

(a) "Investment, financing and dividend decisions are all inter-related" Comment.

(b) Overtrading and Undertrading

(c) Arbitrage process.

(d) Capital Gearing.

(e) Trading on equity.

(f) Implicit and Explicit costs.

(g) Capital Rationing.

(h) Scrip Dividend.

(i) Types of Bonds.

(j) Commercial papers.

(k) ABC & Co. issues 2,000, 10% preference shares of ₹100 each at ₹95 each redeemable at the end of 10th year from the year of issue. Calculate cost of preference capital.

(l) From the data given below, determine the discounted pay back period for the project taking discount factor at 10%. Initial investment is ₹15,00,000

Year	Cash Inflow (₹)
1	7,00,000
2	6,00,000
3	3,00,000
4	2,00,000
5	1,00,000

10×2=20

Section-B

Attempt any 2 questions.

2. "The objective of Financial Management is wealth maximization and not profit maximisation". Explain. 20

3. Discuss various theories of capital structure. 20

4. Discuss the theories of relevance and irrelevance of dividends.

5. As a financial analyst of a large electronics company, you are required to determine the weighted average cost of capital of the company using

   (a) Book value weights

   (b) Market value weights

   The following information is available for your parsual. The company's present book value capital structure is :-

   Debentures (₹100 per debenture)

   Preference shares (₹100 per share)

   Equity shares (₹10 per share)

   All these securities are traded in the capital markets.

Recent prices are :–

Debentures, ₹110 per debenture, preference shares, ₹120 per share and equity shares, ₹22 per share.

Anticipated external financing opportunities are :–

(i) ₹100 per debenture redeemable at par,

10 year maturity, 11 percent coupon rate,

4 percent floatation costs, sale price, ₹100.

(ii) ₹100 preference shares, redeemable at par, 10 year maturity, 12 percent dividend rate, 5 percent floatation costs, sale price ₹100.

(iii) Equity shares, ₹2 per share floatation costs, sale price ₹22.

In addition, the dividend expected on the equity share at the end of the year is ₹2 per share, the anticipated growth rate in dividends is 7 percent and the firm has the practice of paying all its earnings in the form of dividends. The corporate tax rate is 35%. 20

Section-C

Attempt any 2 questions.

6. What is the difference between operating leverage and financial leverage? Do you think that they affect the capital structure decision of a firm? 20

7. What do you mean by working capital? what are the various factors influencing working capital? 20

8. A company is considering a proposal of installing a drawing equipment. The equipment would involve a cash outlay of ₹ 6,00,000 and net working capital of

₹80,000. The expected life of the project is 5 years without any salvage value. Assume that the company is allowed to charge depreciation on straight line basis. The estimated cash inflows before tax and before depreciation are given below :–

Year	Inflows (in thousands)
1	240
2	275
3	210
4	180
5	160

The applicable income tax rate to the company is 35%. If the company's opportunity cost of capital is 12%. Calculate the equipments's discounted payback period, NPV and IRR.

The P.V factors at 12%, 14% and 15% are :–

year	1	2	3	4	5
P.V factor @ 12%	.8929	.7972	.7118	.6355	.5674
P.V factor @ 14%	.8772	.7695	.6750	.5921	.5194
P.V factor @ 15%	.8696	.7561	.6575	.5718	.4972

9. What are the various ways by which working capital may be arranged? 20

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