

Exam. Code : 217602

Subject Code : 6854

M.Com 2nd Semester

FINANCIAL MANAGEMENT

Paper—MC-202

Time Allowed—3 Hours]

[Maximum Marks—100

SECTION—A

**Note :-** Attempt any 10 short answer questions from the following 12 questions carrying 2 marks each. The length of answer to each question should be in up to ten lines.

1. What do you mean by watered capital ?
2. What do you mean by signaling effect of dividend ?
3. What do you mean by weighted average cost of capital ?
4. What do you mean by equivalent risk class firms ?
5. What do you mean by commercial paper ?
6. What do you mean by scrip dividend ?
7. What do you mean by financial breakeven point ?
8. What do you mean by fixed operating cost ?
9. What do you mean by core working capital ?
10. What do you mean by delinquent account ?
11. What do you mean by technical insolvency ?
12. What do you mean by marketable securities ?

## SECTION-B

**Note :-** Attempt any **two** questions carrying **20** marks each.  
The length of answer to each question should be in up to **5** pages.

1. What do you mean by financial planning ? Examine its significance. Explain the process you would follow for financial planning.
2. The Avtar Badaun Limited is considering a project which will be funded by using the existing capital mix. The following information is available in respect of its existing capital mix.

Source	Book value	Market Value
Equity share capital	25,50,000	50,00,000
Retained earnings	15,50,000	
Preference capital	3,80,000	3,20,000
Debentures	2,20,000	1,80,000

The after tax cost of different sources of capital is as follows :

Equity share capital 14%; retained earnings 12%; preference capital 10% and debentures 6%.

Calculate overall cost of capital using :

- (a) Book value weights and
  - (b) Market value weights.
3. What do you mean by irrelevance of dividend decision ? Examine the Modigliani Miller model of irrelevance of dividend decision.

4. From the following data, state which of the two projects A or B is better :

Project	A	B
Cash flows	Rs.	Rs.
Year 0	-1,00,000	-1,25,000
Year 1	50,000	60,000
Year 2	50,000	75,000
Year 3	75,000	95,000

Riskless rate of discount is 7%. Project A is less risky as compared to Project B. The risk certainty equivalents coefficients for the cash flows of the two projects A and B are :

Project	A	B
Year 0	1	1
Year 1	0.95	0.85
Year 2	0.75	0.70
Year 3	0.65	0.55

Which of the two projects should be accepted ?

### SECTION-C

**Note :-** Attempt any **two** questions carrying **20** marks each.

The length of answer to each question should be in up to **5** pages.

1. What do you mean by combined leverage ? How would you compute combined leverage of a firm ? Examine the significance of combined leverage.

2. The capital structure of Progressive Corporation consists of an ordinary Share Capital of Rs, 10,00,000 (share of Rs. 100 per value) and Rs. 10,00,000 of 10% debentures. Sales increased by 20% from 100,000 units to 120,000 units, the selling price is Rs. 10 per unit; variable cost amounts to Rs. 6 per unit and fixed expenses amount to Rs. 2,00,000. The income tax rate is assumed to be 50%.

You are required to calculate the following :

- (i) The percentage increase in earnings per share;
- (ii) The degree of financial leverage at 100,000 units and 120,000 units
- (iii) the degree of operating leverage at 100,000 units and 120,000 units.

Comment on the behaviour of operating and financial leverages in relation to increase in production from 100,000 units.

3. What do you mean by uncertain cash flows ? How would you manage uncertain cash flows with the help of Miller Orr model ?
4. What are the objectives of receivables management ? What are the operative functions of receivables management ?