MCO (F) 96

M.Com. (Final) Examination, May/June 2011
(SIM)
COMMERCE
Paper – VI : Financial Management

Time : 3 Hours　　　　Max. Marks : 90

SECTION – A

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

1. Explain the objectives of financial management.
2. Explain various factors which determine working capital requirement of a firm.
3. Distinguish between 'relevance' and 'irrelevance' theories of dividends.
4. A company is considering an investment proposal with an investment of Rs. 40,00,000. Advice the company regarding the selection of the project based on DCF techniques.

		Project A	**Project B**
Cashflows (before taxes)	1	12,00,000	15,00,000
	2	10,00,000	15,00,000
	3	8,00,000	15,00,000
	4	20,00,000	15,00,000
	5	10,00,000	–

Assume a cost of capital of 10% and tax rate of 40%.

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5. Following details related three companies which are identical except in terms of ‘r’.

	ABC Ltd	MNC Ltd	XYZ Ltd
Cost of capital	10%	10%	10%
Earnings per share	Rs. 10/-	Rs. 10/-	Rs. 10/-
Rate of return expected	5%	10%	15%

Dividend payout ratio
i) 25%
ii) 50%
iii) 75%
iv) 100%

Find out the price of equity shares using Walter’s and Gordon’s model. What is optimum payout ?

SECTION – B

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

6. Describe the process involved in computing cost of capital.
7. What is an optional capital structure ? Explain the problems of over capitalisation.
8. Distinguish between NOI and NI approach and enumerate the assumptions of NOI approach.
9. WBC Ltd. has furnished the following information.

Source of capital	**Book Value Rs.**	**Market Value Rs.**	**After tax Cost**
Long term debt	40,00,000	38,00,000	6%
Preferred stock	4,00,000	6,00,000	10%
Common stock	10,00,000	30,00,000	12%

a) Calculate WACC using book value of weights.
b) Calculate WACC using market value of weights.
c) Calculate WACC if additional equity of Rs. 5,00,000 raised at the same cost.

10. A company is considering an expansion programme with an investment of Rs. 50,00,000/- The following financial plans are under consideration. Advice the company regarding the selection of a financial plan.

Plan I 100% Equity of Rs. 100/- each

Plan II 50% equity and 50% debt at the following rates. Upto 50% @ 12%, more than 50% @ 14%.

At present there are 10,000 equity shares are outstanding. There are no debenture in the existing structure. Assume a tax rate of 30%. The expected EBIT after the expansion is Rs. 12,00,000/-.

SECTION – C

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

11. a) Construct an annuity chart indicating the value of a rupee received at the end 1 to 6 years at 5%, 10% and 15%.

b) Write a note on operating cycle.

c) How do you ascertain the value of a firm under MM′'s model ?

d) Examine the role of a finance manager in the era of globalisation.

e) Enumerate the sources of capital with their merits and demerits.