



MCO (F) 96

**M.Com. (Final) Examination, June 2013
(SIM)
COMMERCE
Paper – VI : Financial Management**

Time : 3 Hours

Max. Marks : 90

PART – A

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

1. Explain the assumptions and implications of the NI approach and NOI approach. Illustrate your answer with hypothetical examples.
2. Edelman Engineering Company is considering to include 2 pieces of equipment, a truck and a pulley system in this year's capital budget. The projects are independent. The cash outlay for the truck is Rs. 1, 70,000 and that for the pulley system is Rs. 2,24,300. The firm's cost of capital is 14%. After tax cash flows including depreciation are as follows :

Year	Truck	Pulley System
1	51,000	75,000
2	51,000	80,000
3	51,000	65,000
4	51,000	90,000
5	51,000	85,000

Calculate Net Present Value, Profitability Index and IRR for each project and indicate accept/reject decision for each.

3. Discuss the scope of financial management in the present global context.
4. Define working capital management. Explain the factors that determine the working capital needs of a firm.
5. XYZ Ltd. has the following book value capital structure.

Components of capital	Rs. In Lakhs
Equity share capital (Rs.10 par)	50
Preference capital (11%, Rs.100 par)	5

P.T.O.



Retained Earnings	60
Debentures (13.5%, Rs.100 par)	25
Term Loans (12%)	40

The next expected dividend per share is Rs. 1.50. The dividend per share is expected to grow at the rate of 7%. The market price per share is Rs. 20. The tax rate for the company is 40%. Calculate Weighted Average Cost of capital using :

- Book value proportions
- Market value proportions.

PART – B

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

- Mr. X deposits Rs. 5,000 at the end of every year for 5 years and the deposit earns a compound interest @ 8% p.a. Determine how much money he will receive at the end of 5 years ?
 - A company issues 5,000 12% debentures of Rs. 100 each at a discount of 5%. The commission payable to underwriters and brokers is Rs. 25,000. The debentures are redeemable after 5 years. Compute after tax cost of debt assuming a tax rate of 50%.
- A proforma cost sheet of a company provides the following particulars :
Material Rs. 24 per unit; Direct Labour Rs. 16 per unit; and Overheads Rs. 10 per unit. The following further information is also available.
 - It is proposed to maintain a level of activity of 100000 units per annum
 - Selling price is Rs. 60 per unit
 - Raw materials are expected to remain in stores for an average period of one month
 - Materials will be in process on an average half a month
 - Finished goods are required to be in stock for an average period of one month
 - Credit allowed to debtors is two months
 - Credit allowed by suppliers is one month
 - Lag in payment of labour and overheads is one month
 - 25% of the output is sold against cash

Estimate the working capital requirements after adding 10% for contingencies.



8. Examine the factors influencing the dividend policy of a firm.
9. Explain Walter's Dividend Relevance model.
10. Discuss the objectives of the firm.

PART – C

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

11.
 - a) Outline the home made leverage as described by MM hypothesis.
 - b) Distinguish between operating cycle and cash conversion cycle for a manufacturing company.
 - c) State the acceptance criterion under discounted cash flow techniques of evaluating capital budgeting proposals.
 - d) Define term 'risk-return trade off'.
 - e) Distinguish between cash dividend and stock dividend.
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