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PGIS-N 1292 B-2K13

M.Com. Ist Semester (CBCS) Degree Examination
Commerce
(Financial Management)
Paper - HC-1.3
(New)

Time : 3 Hours   Maximum Marks :80

Instructions to Candidates:

　　　Answer all the sections.

Section - A

1. Answer all sub-question. Each sub-question carries 2 marks.   (10×2=20)
    a) What is wealth maximisation objective?
    b) Why cost of equity is not out-of-pocket cost?
    c) What is rule of 6g?
    d) Define benefit cost ratio.
    e) Define carrying costs.
    f) What is income gearing?
    g) What happens to the PV of annuity when the interest rate declines?
    h) What is scrip dividends?
    i) Why cost of retained earnings is cheaper than cost of external equity?
    j) What is ABC analysis?

Section - B

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

2. Explain the concept of operating leverage and financial leverage. State the differences between the two.
3. "Financing, investing and dividend decisions are inter-related". Explain.
4. Explain the legal and procedural aspects associated with dividend policy.
5. What are the factors that determine the cash needs of a firm?
6. A company is considering the purchase of two machines with the following details:

	Machine.1	Machine-2
Life (estimated)	3 years	3 years
Capital cost(Rs.)	10,000	10,000
Net Cash in flows:	Rs.	Rs.
1st year	8,000	2,000
2nd year	6,000	7,000
3rd year	4,000	10,000

you are required to suggest which machine should be preferred using:

i)   Pay back period method

ii)   NPV method (Using 10% Discount Factor)

Section - C

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

7.   Make out the critical evaluation of Modigliani and Miller's hypothesis for corporate dividend policy.

8.   What is working capital management? Discuss the consequences of inadequate and excess working capital.

9.   Define financial management. Discuss in detail the scope of financial management.

10. Zed limited is presently financed entirely by equity shares. The current market value is Rs. 6,00,000. A dividend of Rs. 1,20,000 has just been paid. This level of dividend is expected to be paid indefinitely. The company is thinking of investing in a new project involving an outlay of Rs. 5,00,000 now and is expected to generate net cash receipts of Rs. 1,05,000 per annum indefinitely. The project would be financed by issuing Rs. 5,00,000 debentures at the market interest rate of 18%

Ignoring tax consideration:

i)   Calculate the value of equity shares and the gain made by the shareholders if the cost of equity rises to 21.6%

ii)   Prove that the weighted average cost of capital is not affected by gearing.

11. A company is considering two mutually exclusive projects. Project K will require an initial cash investment in machinery of Rs. 2,68,000. It is anticipated that the machine will have a useful life of ten years and at the end of which its salvage will realise Rs. 20,500. The project will also require an additional investment in cash. Sundry debtors and stock of Rs. 40,000 . At the end of five years from the commencements of the project balancing equipment for Rs. 45,000 has to be installed to make the unit work-able. The cost of additional machinery will be written off to depreciation over the balance life of the project. The project is expected to yield a net cash flow (before depreciation) of Rs. 1,00,000 annually.

Project R which is alternative under consideration require an investment of Rs. 3,00,000 in machinery and as in project K investment in current assets of Rs. 40,000. The residual salvage value of the machine at the end of its useful life of ten years is expected to be Rs. 25,000. The annual cash in flow (before depreciation) from the project is worked at Rs. 80,000 p.a. for the first five years and Rs. 1,80,000 per annum for the next five years.

Depreciation written off by the company on sum of digits method (i.e. if the life of the asset is 10 years, then in the ratio of 10,9,8 and so on. Income-tax rate is 50%. A minimum rate of return objective has been calculated at 16%. The present value of Re 1 at interest rate of 16% p.a is .86,.74,.64,.55,.48,.41,.35,.30,.26 and .23 for 1 to 10 years respectively. Which project is better? Assuming no capital gains tax, calculate the Net present value of each project.