

M.Com. 2<sup>nd</sup> Semester  
FINANCIAL MANAGEMENT  
Paper—MC-202

Time Allowed—Three Hours] [Maximum Marks—100

SECTION—A

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

1. What do you mean by under capitalization ?
2. What do you mean by payout ratio ?
3. What do you mean by explicit cost of capital ?
4. What do you mean by capital structure ?
5. What do you mean by redeemable bonds ?
6. What do you mean by home-made dividend ?
7. What do you mean by financial leverage ?
8. What do you mean by cost of retained earnings ?
9. What do you mean by cost of illiquidity ?
10. What do you mean by credit standards ?

11. What do you mean by lock box system ?
12. What do you mean by fixed financial costs ?

## 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. Compare and contrast profit maximization and value maximization as objectives of financial management. Which of the two is better ?
2. From the following capital structure of Dalwari Gas Suppliers Limited, calculate overall cost of capital using (a) book value weight and (b) market value weight.

Source	Book Value	Market Value
Equity share capital	14,50,000	23,50,000
Retained earnings	11,20,000	
Preference capital	1,80,000	1,80,000
Debentures	2,80,000	2,50,000

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

Equity share capital 13%; retained earnings 12%; preference capital 10% and debentures 7%.

3. What do you mean by relevance of dividend decision ?  
Examine the Walter model of dividend decision.

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

Project	A	B
Cash flows	Rs.	Rs.
Year 0	- 40,000	- 50,000
Year 1	20,000	25,000
Year 2	20,000	30,000
Year 3.	30,000	40,000

Riskless rate of discount is 8%. Project A is less risky as compared to Project B. The risk certainty equivalents coefficient for the cash flows of the two projects A and B are :

Project	A	B
Year 0	0.90	0.80
Year 1	0.80	0.70
Year 2	0.60	0.50

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 net operating cycle ? How would you compute the net operating cycle of a firm ?

2. Calculate operating, financial and combined leverages. Under situations when fixed costs are (a) Rs. 10,000 and (b) Rs. 20,000 and financial plans 1 and 2 respectively from following information pertaining to the operating and capital structure of a company.

Total Assets	Rs. 60,000	
Total Assets Turnover	2	
Variable cost as % of sales	60	
Capital structure	Financial Plan	
	1	2
Equity	Rs. 50,000	Rs. 10,000
10% Debentures	Rs. 10,000	Rs. 50,000

3. What are the objectives of cash management ? Explain the operative functions of cash management.
4. What do you mean by credit terms ? Explain their relevance in receivables management. What are the factors affecting credit terms ?