

Exam. Code : 217602

Subject Code : 4992

M.Com. 2nd Semester

FINANCIAL MANAGEMENT

Paper : MC-202

Time Allowed—Three Hours] [Maximum Marks—100

Note :— Candidates are required to attempt **FIVE** questions, selecting at least **ONE** question from each section. The **fifth** question may be attempted from any section. Each question carries **20** marks.

SECTION—A

1. (a) “The Financial Manager’s primary task is to plan for the acquisition and use of funds so as to maximize the value of firm”. Do you agree ?
Comment. 12
- (b) What are the advantages and drawbacks of having debt component in capital structure ? 8
2. Delhi Services Limited is setting up a project with a capital outlay of Rs. 60,00,000. It has following two alternatives for financing the project cost :

Alternative 1 : 100% equity finance;

Alternative 2 : Debt equity ratio 2 : 1.

The rate of interest payable on the debt is 18%. The corporate rate of tax is 40%. Calculate the indifference point between two alternative methods of financing.

20

SECTION—B

3. Explain the Modigliani and Miller's hypothesis of dividend irrelevance and how does it differ from the hypothesis of dividend relevance. Critically examine the assumptions and deficiencies of this model. 20
4. (a) A company is considering an investment proposal which has following cash flows :

Projects	C_0	C_1	C_2	C_3
A	-10,000	10,000		
B	-10,000	17,500	7,500	
C	-10,000	2,000	4,000	12,000
D	-10,000	10,000	3,000	13,000

Year	PV (10%)	PV (30%)
1	.909	.769
2	.826	.592
3	.751	.455

Rank the projects according to :

(i) ARR method;

(ii) NPV method.

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- (b) Provide a comparative analysis of the important sources to fund the short term needs of company.

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SECTION—C

5. (a) Arun Enterprises Ltd. is setting a project with a cost of Rs. 50,00,000. It is considering the following three options for financing the project :

Capital structure	Option A	Option B	Option C
Equity (Rs.10)	50,00,000	40,00,000	20,00,000
Debt (15%)	—	10,00,000	30,00,000
Total	50,00,000	50,00,000	50,00,000

The company's estimated earnings per year Rs. 20,00,000. The corporate tax is 40%. Calculate the earnings per share in three different options and make suggestion.

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- (b) Explain the differences between degrees of financial, operating and total leverages.

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6. Explain the need and objectives of working capital management. What do you mean by undercapitalization and over capitalization ? Why should these be avoided and suggest remedies for same ?

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SECTION—D

7. Why is cash management important ? Critically evaluate the various models of cash management. 20
8. Briefly explain the following :—
- (a) Motives of holding cash
 - (b) Means to accelerate cash collections
 - (c) Credit analysis for effective management of receivables
 - (d) Meaning and effect of cash discount on credit policy. 4×5=20