Exam. Code : 108503
Subject Code : 2811

B.Com. 3rd Semester

FINANCIAL MANAGEMENT

Paper—BCG-305

Time Allowed—3 Hours] [Maximum Marks—50

Note :— Present value tables should be made available to the students.

SECTION—A

Note :— Attempt any **TEN** questions. Answer to each question should be upto **five** lines. Each question carries **1** mark.

1. Write short notes on :
   (a) Commercial Papers
   (b) Factoring
   (c) Zero coupon bonds
   (d) Trading on equity
   (e) Aggressive policy of working capital
   (f) Capital Gearing
   (g) Bonus Issue Vs. Stock Split
   (h) Combined leverage
   (i) Depreciation as a source of finance
   (j) Leasing Vs. Hire purchase
   (k) Risk-return relation
   (l) Limitations of capital budgeting. 1×10=10

SECTION—B

Note :— Attempt any **TWO** questions. Answer to each question should not exceed **five** pages. Each question carries **10** marks.

2. What are the main sources of finance available to industries for meeting short term as well as long term financial requirements ? Discuss.

3. A company expects a net income of Rs. 80,000. It has Rs. 2,00,000 8% debentures. The equity capitalisation rate of the company is 10%. Calculate the value of firm and overall capitalisation rate according to Net Income approach (ignoring income tax).

   What will be the value of the firm and the overall capitalisation rate if the debenture debt is increased to Rs. 3,00,000 ?

4. What basic principles would you follow in the matter of deciding on a proper pattern of capital structure for a company ? Explain.

5. ABC Ltd. has the following book value capital structure :

	Rs. million
Equity Shares of Rs. 10 each	100
11% Preference shares of Rs. 100 each	10
Retained Earnings	120
13.5% Debentures Rs. 100 each	50
12% Term Loan	80
Total	**360**

The next expected dividend is Rs. 1.50 per share. The dividend per share is expected to grow at the rate of 7%. The market price per share is Rs. 20. Preference stock, redeemable after 10 years, is currently selling for Rs. 75 per share. Debentures redeemable after 6 years are selling for Rs. 80 per debenture. The tax rate of the company is 50%. Compute the weighted average cost of capital using :

(i) Book value proportions.

(ii) Market value proportions. 10×2=20

SECTION—C

Note :— Attempt any **TWO** questions. Answer to each question should not exceed **five** pages. Each question carries **10** marks.

6. From the information given below, you are required to prepare a projected Balance Sheet, Profit and Loss account and then estimate working capital requirements :

	Rs.
Issued Share Capital	3,00,000
6% Debentures	2,00,000
Fixed assets at cost	2,00,000
	Percentage on selling price
Raw Materials	50%
Labour	20%
Overheads	20%
Profits	10%
Raw materials are to remain in stores on an average of two months.	
Finished goods are required to be in stock on an average of three months.	
Processing time is half a month.	
Selling price is Rs. 4 per unit.	
Credit period allowed to debtors is three months.	
Credit period allowed by creditors is two months.	
Expected production is 1,80,000 units.	
Calculation of debtors may be at selling price.	

7. What do you understand by capital budgeting process ? Enumerate the principal methods employed in evaluating proposed capital outlays.

8. (a) The current price of a company's share is Rs. 200. The company is expected to pay a dividend of Rs. 5 per share next year with an annual growth rate of 10%. If an investor's required rate of return is 12%, should he buy the share ?

   (b) Discuss the various forms of dividend. 5+5

9. Akash Ltd. has currently under examination a project which will yield the following returns over the life of the project :

Year	Gross Yield (in Rs.)
1	80,000
2	80,000
3	90,000
4	90,000
5	83,000

Cost of machinery to be installed amounts to Rs. 2,00,000. The machine is to be depreciated at 20% p.a. at Written down value method. The salvage value of machine is nil. If the average cost of capital is 11%, would you recommend accepting the project under the internal rate of return method ? 10×2=20