Exam. Code : 108503
Subject Code : 2002

B.Com. 3rd Semester (Batch 2020-23)

FINANCIAL MANAGEMENT

Paper—BCG-305

Time Allowed—3 Hours] [Maximum Marks—50

Note :—Attempt **FIVE** questions in all selecting at least **ONE** question from each section. The fifth question may be attempted from any section. All questions carry equal marks.

SECTION—A

1. Why is consideration of time important in financial decision making ? How can time value be adjusted ? Illustrate your answer. 3+7

2. The following is the capital structure of X Ltd. as on 31-12-2020 :

Particulars	Amount (Rs.)
Equity Shares—20,000 shares of Rs. 100 each	20,00,000
10% Preference shares of Rs. 100 each	8,00,000
12% Debentures	12,00,000

The market price of the company's shares is Rs. 110 and it is expected that a dividend of Rs. 10 per share would be declared after 1 year. The dividend growth rate is 6%.

(i) Compute the weighed average cost of capital, if company is in the tax bracket of 50%.

(ii) Assuming that in order to fiance an expansion plan, the company intends to borrow a fund of Rs. 20 lacs bearing 14% rate of interest, what will be the company's revised weighted average cost of capital ? This financing decision is expected to increase dividend from Rs. 10 to Rs. 12 per share. However, the market price of equity share is expected to decline from Rs. 110 to 105 per share. 5+5

SECTION—B

3. What is financial risk ? How does it differ from business risk ? How does the use of financial leverage result in increased financial risk ? Illustrate. 10

4. 'The total value of a firm remains unchanged regardless of variations in its financing mix'. Discuss this statement in the light of Net Operating Income and Modigliani-Miller theory of capital structure. 10

SECTION—C

5. Explain briefly the recommendations of Tandon and Chore committee for working capital management. 5+5

6. What is working capital ? On the formation of a new business, what considerations are taken into account in estimating the amount of working capital needed ? 10

SECTION—D

7. What are the assumptions which underlie Walter model of dividend effect ? Does dividend policy affect the value of firm under Walter model ? Explain with example. 10

8. A company is considering an investment proposal to install new milling controls at a cost of Rs. 50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35 percent. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows :

Year	CFBT (Rs)
1	10,000
2	10,692
3	12,769
4	13,262
5	20,385

Compute the following :—

(i) Pay-back period

(ii) Average rate of return

(iii) NPV and Profitability Index at 10 percent discount rate.

You may use the following table :

Year	P.V. Factor at 10%
1	0.909
2	0.826
3	0.751
4	0.683
5	0.621

2+2+6