

(i) Printed Pages : 2

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(ii) Questions : 10

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**Master of Commerce 2<sup>nd</sup> Semester**  
**1059**

**FINANCIAL MANAGEMENT AND POLICY**

**(Same for USOL Candidates)**

**Paper-M.C. 203**

**Time Allowed : Three Hours]**

**[Maximum Marks : 80**

**Note :—**Attempt **FIVE** questions in all selecting at least **ONE** question from each unit. All questions carry equal marks.

**UNIT—I**

1. How should the finance function of an enterprise be organized ?  
What functions does the financial officer perform ?
2. (a) Illustrate the concept of internal rate of return with its significance.  
(b) Discuss the concept of financial forecasting. Also explain the various tools and techniques available for financial forecasting.

**UNIT—II**

3. Equipment Y has a cost of Rs. 75,000 and net cash flow of Rs. 20,000 per year for a period of six years. A substitute equipment Z would cost Rs. 50,000 and generate net cash flow of Rs. 14,000 per year for a period of six years. The required rate of return of both equipments is 11 per cent. Calculate the IRR and NPV for the equipments. State which should be accepted and why ?

4. What is the CAPM approach for calculating the cost of equity ? What is the difference between this approach and the constant growth approach ? Which one is better and why ?
5. "The certainty equivalent approach is theoretically superior to the risk-adjusted discount rate". Do you agree ? Give reasons in support of your answer.

### UNIT—III

6. Firms A and B are similar except that A is unlevered, while B has Rs. 2,00,000 of 5 per cent debentures outstanding. Assume that the tax rate is 40 per cent; NOI is Rs. 40,000 and the cost of equity is 10 per cent.
- (i) Calculate the value of the firms, if the M-M assumptions are met.
- (ii) Suppose  $V_B = \text{Rs. } 3,60,000$ . According to M-M, do these represent equilibrium values ? How will equilibrium be set ? Explain.
7. What is Financial Risk ? How does it differ from business risk ? How does the use of financial leverage result in increased financial risk ?
8. What is the indifference point in the EBIT-EPS analysis ? Give its uses and limitations.

### UNIT—IV

9. What is Miller-Modigliani's dividend irrelevance hypothesis ? Critically evaluate its assumptions.
10. Define the concept of working capital management. Also explain the various methods for estimating working capital needs.