

(i) Printed Pages : 3

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Master of Commerce 2nd Semester

1048

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. Write notes on :—

(i) Define the required rate of return with suitable example.

(ii) What are perpetual bonds ? How their value is calculated ?

2. Discuss what present value is. How it is different from future value ? How the future value of a single cash flow, annuity and sinking fund are calculated.

UNIT—II

3. The particulars relating to two alternative capital projects are furnished below :—

Life of the project	Project X 4 Years (Rs. in Lakhs)	Project Y 6 Years (Rs. in Lakhs)
Estimated Cash Outflow	15	15
Estimated Cash Inflow		
I Year	8	7
II Year	10	8
III Year	7	8
IV Year	3	6
V Year	—	5
VI Year	—	4

Compute internal rate of return of Projects X and Y and state which project you would recommend.

Your may start from 35%. The following values may be used :

Year	35%	40%	45%	50%
Ist Year	.741	.714	.690	.677
IIInd Year	.549	.510	.476	.444
IIIrd Year	.406	.364	.328	.296
IVth Year	.301	.260	.226	.198
Vth Year	.233	.186	.156	.132
VIth Year	.165	.133	.108	.088

4. A company wishes to expand production. Two propositions of capital expenditure are being considered, each of which requires more or less same outlay. You, as the financial manager of the concern, are required to furnish profitability estimate to guide the Board in their decisions. Describe briefly the three methods commonly used for this purpose.
5. Define the concept of cost of capital. State how you would calculate cost of preference capital and retained earnings.

UNIT—III

6. Compare and contrast net income approach of capital structure with net operating income approach of capital structure.
7. Discuss the MM theory of capital structure. What is the role of arbitrage in this theory ? Discuss.
8. What is meant by financial leverage ? How does it magnify the revenue available for equity shareholders ?

UNIT—IV

9. Discuss the Irrelevance approach of dividend given by Modigliani and Miller.
10. Discuss in detail the Gordon's model of dividend decisions.