Exam.Code:0016
Sub. Code: 0836

1057
Bachelor of Commerce
Sixth Semester
BCM-602: Financial Management

Time allowed: 3 Hours | Max. Marks: 80

***NOTE**: Attempt <u>four</u> short answer type questions from Section–A. Attempt <u>two</u> questions each from Section B and C respectively.*

x-x-x

Section – A

I. Attempt the followings:-

a) Write a note on Profit Maximization and Wealth Maximization?

b) Name any two techniques of Time Value of Money?

c) The shares of a company are selling at Rs. 40 per share and it had paid a dividend of Rs. 4 per share last year. The Investors market expects a growth rate of 5 percent per year.

i) Compute the company's equity cost of capital

ii) If the anticipated growth rate is 7 percent per annum, calculate the indicated market price per share.

d) Compute the market value of the firm, value of the shares and average cost of capital from the following information:

Net Operating Income	Rs. 2,00,000
Total Investment	Rs. 10,00,000
Equity Capitalization rate:	
If the firm uses no debt	10%
If the firm uses Rs. 4,00,000 debentures	11%
If the firm uses Rs. 6,00,000 debentures	13%

Assume that Rs. 4,00,000 debentures can be raised at 5% rate of interest whereas Rs. 6,00,000 debentures can be raised at 6% rate of interest.

e) The following data are available for X Ltd:

Selling Price per Unit Rs. 120, Variable Cost per Unit Rs. 70, Fixed Cost Rs. 2,00,000.

i) What is the operating Leverage when X Ltd. produces and sells 6,000 Unit?

ii) What is the percentage change that will occur in the EBIT of X Ltd., if output increases by 5%?

f) What is the significance of stable dividend policy? (4x5)

Section – B

II. "Maximization of profits is regarded as the proper objective of investment decision, but it is not as exclusive as maximizing shareholders wealth", comment? (15)

III. Under what circumstances may NPV and IRR give conflicting recommendations? Which criteria should be followed in such circumstances and why? (15)

IV. Following are the data on a capital Project M being evaluated by the management of X Ltd.

Annual Cost Saving	Rs. 40,000/-
Useful Life	4 years
IRR	15%
P.I.	1.064
NPV	?
Cost of Capital	?
Cost of Project	?
Payback period	?

Find the missing Figures considering the following tables of discount factor only:-

Discount Factor	15%	14%	13%	12%
1st Year	0.869	0.877	0.885	0.893
2nd Year	0.756	0.769	0.783	0.797
3rd Year	0.658	0.675	0.693	0.712
4th Year	0.572	0.592	0.613	0.636

V. A firm has the following capital structure and after tax costs for the different sources of funds used:

Sources of Funds	Amount (Rs.)	Proportion %	After Tax cost %
Debt	15,00,000	25	5
Preference Share	12,00,000	20	10
Equity Shares	18,00,000	30	12
Retained earning	15,00,000	25	11
Total	60,00,000	100	

You are required to compute the weighted average cost of capital. (15)

Section – C

VI. Explain in detail relevance concept of dividend policy or the theory of relevance?(15)

VII. Explain the various sources of corporate finance along with SEBI guidelines? (15)

VIII. RB Pvt. Ltd. Sells goods on a gross profit of 25%. Depreciation is taken into account as part of cost of production. The following are the annual figures given to you:

Sales (two months credit)	18,00,000
Material Consumed (One month credit)	4,50,000
Wages (One month lag in payment)	3,60,000
Cash manufacturing expenses (one month Lag in payment)	4,80,000
Administration expenses (One month lag in payment)	1,20,000
Sales promotion expenses (paid quarterly in advance)	60,000
Income tax payable in 4 installments of which one lies next year	1,50,000

The company keeps one month's stock each raw material and finished goods. It also keeps Rs. 1,00,000 in cash. You are required to estimate the working capital requirement of the company on cash cost basis assuming 15% safety margin. Ignore work in progress. (15)

IX. a) A company expects a net operating income of Rs. 1,00,000. It has Rs. 5,00,000, 6% debentures. The overall capitalization rate is 10%. Calculate the value of the firm and the equity capitalization (Cost of Equity) according to Net operating income approach.

b) If the debenture debt is increased to Rs. 7,50,000. What will be effect on the value of the firm and equity capitalization rate? (15)

x-x-x