

(i) Printed Pages : 7]

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(ii) Questions : 10]

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**Master of Commerce 2nd Semester
Examination**

1047

FINANCIAL MANAGEMENT AND POLICY

(Same for USOL Candidates)

Paper : M.C. 203

Time : 3 Hours]

[Max. Marks : 80

Note :- Attempt *five* questions at least *one* question from each Unit. Each question carries 16 marks.

Unit-I

1. The U.S. Bureau of the Census publishes employment statistics and demand forecasts for various occupations :

Employment (1000)

Occupation	2005	2006
Bill collectors	311	420
Computer engineers	299	622
Physicians assistants	66	98
Respiratory therapists	86	123
Systems analysts	617	1,194

N-476

(1)

Turn Over

Using a spreadsheet or hand-held calculator, calculate the ten-year growth rate forecast using the constant growth model with annual compounding, and the constant growth model with continuous compounding for each occupation.

2. Environmental Designs, Inc., produces and installs energy efficient window systems in commercial buildings. During the past ten years, sales revenue has increased from \$25 million to \$65 million.
 - (a) Calculate the company's growth rate in sales using the constant growth model with annual compounding.
 - (b) Derive a five-year and a ten-year sale forecast.
3. Calculate the change in the key balance sheet accounts between 2004 and 2005 and classify each as a source (S), a use (U), or neither (N), and indicate which type of cash flow it is : an operating cash flow (O), and investment cash flow (I) or a financing cash flow (F).

ABC Corp. Balance Sheet

Changes and Classification of Key Accounts between
2004 and 2005

Account	2004 (\$)	2005 (\$)	Change	Classification	Type
Long-term debt	960	800			
Accounts receivable	640	500			
Common stock	200	200			
Cash	640	500			
Retained earnings	960	800			
Accruals	50	200			
Inventory	840	600			
Accounts payable	1,150	1,000			
Net fixed assets	1,800	2,000			

Unit-II

4. A company has a machine which has been in operation for 2 years. Its remaining estimated useful life is 10 years, with no salvage value at the end. Its

current market value is Rs. 1,00,000. The Management is considering a proposal to purchase an improved model of a machine, which gives increased production. The relevant particulars are as follows :

	Existing	New
	Machine	Machine
Purchase price	2,40,000	4,00,000
Estimated life	12 years	10 years
Salvage value	—	—
Annual operating hours	2,000	2,000
Selling price per unit	Rs. 10	Rs. 10
Output per hour	15 units	30 units
Material cost per unit	Rs. 2	Rs. 2
Labour cost per unit	Rs. 20	Rs. 40
Consumable stores per year	Rs. 2,000	Rs. 5,000
Repairs and maintenance p.a.	Rs. 9,000	Rs. 6,000
Working capital	Rs. 25,000	R.S. 40,000

The company follows the straight line method of depreciation and is subject to 50% tax. Should the existing machinery be replaced by the new one? Assume that the company's required rate of return is 15% and the loss on sale of machinery is tax deductible.

5. Hindustan Chemicals Ltd. has paid, up equity capital of Rs. 60,00,000 divided into 6,00,000 equity shares of Rs. 10 each. The current market price of the share is Rs. 24. During the current year, the company has paid a dividend of Rs. 6 per share. The company has also previously issued 14% preference shares of Rs. 10 each aggregating Rs. 30 lakhs and 13% 50,000 Debentures of Rs. 100 each. The company's corporate tax rate is 40%, growth in dividends equity shares is expected at 5%. In case of preference shares the company has received only 95% of the face value of shares after deducting issue expenses.

Calculate the Weighted Average Cost of Capital on the basis of book value weights and market value weights.

6. Explain and distinguish between Internal Rate of Return Method and Net Present Value Method of evaluating investment proposals. Which one would you prefer and why ? Why is Profitability Index prepared for evaluating projects? Discuss.

Unit-III

7. (a) Describe the factors that determine the capital structure of a company.
- (b) Describe in detail EBIT-EPS Analysis.
8. (a) What do you mean by the term "Trading on equity ?" How it can be used by an organization ?
- (b) Explain operating and financial leverages with the help of hypothetical example:

Unit-IV

9. "Stability in the payment of dividends has a marked bearing on the market price of the shares of a corporate firm." Explain this statement. What other factors are taken into consideration while deciding the dividend payment ? Explain.
10. Discuss various dividend models. Which one is best and why ?