Exam.Code:0016
Sub. Code: 0836

2071
Bachelor of Commerce
Sixth Semester
BCM-602: Financial Management

Time allowed: 3 Hours

Max. Marks: 80

NOTE: Attempt four short answer type questions from Section–A. Attempt two questions each from Section B and C respectively.

x-x-x

Section-A (20marks)

1. Explain the scope of financial management.
2. Mr Jeevan has borrowed a 3 year loan of Rs. 10000 @ 9% from his employer to buy a motorcycle. If the employer requires three equal end of year repayments, then calculate the annual instalment when present value for the first, second and third years are 0.917, 0.842 and 0.772.
3. A company has 100000 preference shares of Rs. 100 each outstanding @ 9.75% dividend rate. The current market price of the preference share is Rs. 80. Calculate its cost?
4. Flat Even ltd has an earning level of Rs. 5 crore. If invested back in the business, it can earn Rs. 1.5 crore additional. The investors have expectations of 35%. Calculate the optimum payout money to be paid to investors and optimum payout ratio.
5. Happy minds ltd has net operating income of Rs. 200000 and investment of Rs. 1000000 in assets. Using the Net Income approach and an equity-capitalization rate of 20%, compute the value of the firm if it has 2:3 as debt equity ratio. Assume 10% as rate of interest on debt component and zero tax rate.
6. Explain about the SEBI guidelines for raising corporate finance

Section-B (30 marks)

7. 'Don't let the wealth of shareholders go down!' This statement refers to taking right decisions and achieving objectives of financial management. Elaborate on such decisions and objectives.

P.T.O.

8. The management of Laughter ltd. has 5 projects A, B, C, D and E on hand. The initial outlays, annual cash flows and life of the projects are as under:

Details	Project A	Project B	Project C	Project D	Project E
Initial outlays	100 lakh	150 lakh	175 lakh	180 lakh	135 lakh
Exp. Annual cash flows	22 lakh	34 lakh	49 lakh	43 lakh	37 lakh
Life in years	10 years	9 years	6 years	8 years	7 years
PV of annuity for years @ 15%	5.0188	4.7716	3.7845	4.4873	4.1604

a. Find NPV and Profitability index of each project.
b. Rank the projects in order of preference based on Profitability index criterion.
c. Rank the projects in order of preference based on NPV criterion.
d. If firm faces the capital constraint of 500 lakh and projects can be implemented in parts what amount of wealth can be created when projects are chosen on the basis of both criterions.

9. The financial analyst of a large corporation has prepared the following profile of cost of debt and equity for different levels of debt on the basis of his survey for his organization:

Debt portion in total (%)	Cost of debt (%)	Cost of equity (%)
0	0	14
10	10	15
20	11.50	15
40	12	15.50
50	12.50	16
60	14	18
70	15	20

Find out the optimal debt ratio for the firm and what would be the cost of equity, cost of debt and overall cost of capital for this optimal assuming tax rates are 50%.

10. Answer the following:

a. The sole criterion of capital budgeting is to earn more than cost of capital? Do you agree? Explain (10 marks)
b. How does time value of money affect financial decisions? (5 marks)

Section-C (30 marks)

11. What do you mean by optimal capital structure? Explain its determinants. Assuming the existence of the corporate income taxes, describe MM theory position on the issue of an optimum capital structure.

12. Two firms X and Y, are implementing the same project with debts of Rs 500 lakh and Rs. 700 lakh respectively. The cost of debt for X and Y are 12% and 15% respectively. The expected level of earnings before interest and taxes are Rs. 300 lakh annually.

   e. If both the firms are subject to 35% tax bracket, find the level of earnings for the shareholders of each firm.
   f. If cost of equity for firm X and firm Y are taken as 22% and 24% respectively, find out the value of equity, value of the firm and the overall cost of capital for both the firms using net income approach.

13. Prepare an estimate of working capital requirement from the following information:

• Projected annual sales	50,000 units
• Selling Price	10 per unit
• Percentage of net profits on sales	20%
• Average credit period allowed to customers	10 weeks
• Average credit period allowed by suppliers	5 weeks
• Average stock holding	13 weeks
• Allow margin for contingencies	10%
• Minimum cash balance required	100,000

14. Walter's dividend model and Gorden's dividend model come from the relevance theory of dividend policy. How does their model support 'bird in hand argument'.

x-x-x