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IV Semester 5 Years B.Com. LL.B. Examination, September/October 2023 (June 2023)
FINANCIAL MANAGEMENT

Duration : 3 Hours Max. Marks : 100

Instructions :
1. **Answer Q. No. 9 and five of the remaining questions.**
2. **Q. No. 9 carries 20 marks and the remaining questions carry 16 marks each.**
3. **Answer should be written in English.**
4. **Use simple calculator only.**

Q. No. 1. What do you mean by capital structure ? Explain the factors affecting capital structure. Marks : 16

Q. No. 2. What do you mean by dividend policy ? Explain the factors that influence dividend policy. Marks : 16

Q. No. 3. What is working capital management ? Explain the factors that affect working capital decisions. Marks : 16

Q. No. 4. From the following particulars relating to Adarsh Ltd. you are required to calculate. Marks : 16

(i) Pay back period

(ii) Discounted pay back period

(iii) N.P.V. and

(iv) Profitability index.

Cost of the project Rs. 50,000 cash flow after taxes.

Year	Rs.
1	5,000
2	20,000
3	30,000
4	30,000
5	10,000

P.T.O.

The cost of capital of the Company is 10 % .

Note : Discounting factor at 10% is

Year	1	2	3	4	5
P.V. Factor at 10%	0.909	0.826	0.751	0.683	0.621

Q. No. 5. Explain the theories of capital structure. Marks : 16

Q. No. 6. What is cost of capital ? Explain the factors and problems associated with determination of cost of capital. Marks : 16

Q. No. 7. ABC Ltd. belongs to a risk class for which the appropriate capitalisation rate is 10%. It currently has outstanding 5,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of dividend of Rs. 6 per share at the end of the current financial year. The Company expects to have a net income of Rs. 50,000 and has a proposal for making new investments of Rs. 1,00,000. Show that under the MM hypothesis, the payment of dividend does not effect the value of the firm. Marks : 16

Q. No. 8. Write short notes on **any two** of the following. Marks : 2×8=16

(a) Inventory management

(b) Mergers – Reasons and types

(c) Capital budgeting.

Q. No. 9. Solve **any two** of the following problems. Marks : 2×10=20

(a) XYZ company's share is currently quoted in market at Rs. 60. It pays a dividend of Rs. 3 per share and investors expect a growth rate of 10% per year.
You are required to calculate :

i) The company's cost of equity capital

ii) The indicated market price per share, if anticipated growth is 12% .

iii) The market price, if the company's cost of equity capital is 12%, anticipated growth rate is 10%p.a. and dividend of Rs. 3 per share is to be maintained.

(b) A company issues Rs. 1,00,000, 15% debentures of Rs. 100 each. The Company is in 40% tax bracket. You are required to compute the cost of debt after tax, if debentures are issued at

i) Par,

ii) 10% discount and

iii) 10% premium

(c) Calculate the average rate of return for project A and B from the following :

Particulars	**Project A**	**Project B**
Investments	2,00,000	3,00,000
Expected life	4 Years	5 Years
Projected net income (After taxes)		
1st Year	20,000	30,000
2nd Year	15,000	30,000
3rd Year	15,000	20,000
4th Year	10,000	10,000
5th Year	–	10,000

If the required rate of return is 12%, which project should be undertaken ?