

Exam. Code : 107305

Subject Code : 2138

B.Com.(Prof.) Semester—V

BCP-501 : FINANCIAL MANAGEMENT

Time Allowed—3 Hours]

[Maximum Marks—50

Note :— Section A is compulsory. Attempt any two questions from Section B and two questions from Section C. Each question carries equal (10) marks.

SECTION—A

1. Attempt any ten short answer type questions out of the following :
 - (i) What is modified Internal Rate of Return ?
 - (ii) Specific Cost of Capital.
 - (iii) Financial Leverage
 - (iv) Cost of Retained Earning.
 - (v) Difference between NPV and IRR method.
 - (vi) Irrelevance of Capital Structure.
 - (vii) Implications of NI approach.
 - (viii) Bird in hand argument
 - (ix) What are implications of Walter Model ?
 - (x) Cash Conversion Cycle.
 - (xi) Concepts of Working Capital.
 - (xii) Optimum Working Capital. 10×1=10

SECTION—B

2. Define the scope of Financial Management. What role should the financial manager play in a modern enterprise ?
3. Distinguish between the weighted average cost of capital and the marginal cost of capital. Which one should be used in capital budgeting and valuation of firm ? Why ?
4. "The Certainty Equivalent approach is theoretically superior to the risk adjusted discount rate ". Do you agree ? Give reasons.
5. A company is considering two mutually exclusive projects. Both require an initial cash outlay of Rs. 10,000 each, and have a life of five years. The company's required rate of return is 10 per cent and pays tax at a 50 per cent rate. The projects will be depreciated on a straight line basis. The before taxes cash flows expected to be generated by the projects are as follows :

Before Tax Cash Flows (Rs.)

Project	1	2	3	4	5
A	4000	4000	4000	4000	4000
B	6000	3000	2000	5000	5000
NPV factor at 10%	0.909	0.826	0.751	0.683	0.621

Calculate for each project :

- (1) Pay back period
- (2) Average rate of return
- (3) Net Present Value

Which project should be accepted and why ?

10×2=20

SECTION—C

6. Assuming the existence of the corporate income taxes, describe the MM's position on the issue of Optimum Capital Structure.
7. Explain the nature of factors which influence the dividend policy of a firm.
8. What is significance of Working Capital Management ? What are the methods for estimating working capital needs ? Explain with examples.
9. Two firms A and B have the following information :

	Sales (Rs. in lakh)	Variable Costs (Rs. in lakh)	Fixed Costs (Rs. in lakh)
Firm A	1800	450	900
Firm B	1500	750	375

You are required to calculate :

- (a) profit to sales ratio
- (b) break-even point, and
- (c) the degree of operating leverage for both firms.

Comment on the positions of the firms. If sales increase by 20 per cent what shall be the impact on the profitability of the two firms ? $10 \times 2 = 20$