



UA-0689

Third Year B. Com. (Honours) Examination

February/March – 2012

BC - 3.61 : Financial Management

Time : Hours]

[Total Marks : 70

**Instructions :**

(1)

नीचे दशांशके निशानीवाणी विगतो उत्तरवही पर अवश्य लखवी. Fillup strictly the details of signs on your answer book.	Seat No. :
Name of the Examination :	<input type="text"/>
<input type="text" value="T. Y. B. COM. (HONOURS)"/>	<input type="text"/>
Name of the Subject :	<input type="text"/>
<input type="text" value="BC - 3.61 : FINANCIAL MANAGEMENT"/>	<input type="text"/>
Subject Code No. : <input type="text" value="0"/> <input type="text" value="6"/> <input type="text" value="8"/> <input type="text" value="9"/>	<input type="text"/>
Section No. (1, 2,.....): <input type="text" value="Nil"/>	<input type="text"/>
	Student's Signature

- (2) All questions are compulsory.  
(3) Figures to the right indicate full marks.  
(4) Show necessary calculations as part of your answer.

- 1 What is capital budgeting ? Explain its characteristics and importance. 10
- 2 Explain concept of management of working capital and its significance. Explain concept and different techniques of inventory management. 10
- 3 (a) Explain what is financial management and its goals. 5
- (b) Explain significance of cost of capital. 5

- 4 (a) Explain combined financial and operating leverage. 5
- (b) Explain m. m. Hypothesis of capital structure. 5
- 5 (a) A company has to make a choice between two projects 10  
 namely A and B. The initial capital outlay of two  
 projects are Rs. 1,35,000 and Rs. 2,40,000 respectively.  
 There will be no scrap value at the end of the life of  
 both the projects. The opportunity cost of capital  
 of the company is 16%. The Annual incomes are :

Year	Project A (Rs.)	Project B (Rs.)	Discounting factor at 16%
1	–	60,000	0.862
2	30,000	84,000	0.743
3	1,32,000	96,000	0.641
4	84,000	1,02,000	0.552
5	84,000	90,000	0.476

Calculate the following for each project and evaluate which project is more preferable.

- (i) Discounted Payback Period
- (ii) Profitability Index
- (iii) Net Present value.
- 6 (a) A firm sells its only product at Rs. 10 per unit. Its variable 5  
 cost ratio is 70% while fixed costs are Rs. 1000. Present  
 sales are 1000 units. Find out -
- (i) DOL - Degree of Operating Leverage
- (ii) EBIT if sales increases by 40%
- (iii) EBIT if sales falls by 25%.

(b) Assuming the corporate tax rate is 35% compute the after tax cost of capital in the following situations : 5

- (i) 15% debentures of Rs. 1000 sold at a premium of 10% with no floating cost.
- (ii) 10 years, 14% debentures of Rs. 2000 redeemable at par, with 5% floating cost.
- (iii) 10 years, 14% preference shares of Rs. 100, redeemable at a premium of 5% with 5% floating cost.

Dividend tax rate is 10%.

7 Short notes : (any two) 10

- (i) Financial planning
- (ii) Importance of capital structure
- (iii) Stable Dividend Policy.