Set 1 (OC)

Unique Paper Code : 52417505_OC

Name of the Course: B.Com

Semester : V

Name of the Paper : Fundamentals of Financial Management

Paper no. : BC 5.2(a)

Duration : 3 hours

Maximum Marks : 75 Marks

Attempt any four questions. All questions carry equal marks. Use of simple calculator is allowed.

1. "The prominent areas of financial decision making today are considerably different from what they were few decades ago." Discuss.

Mr. X wants Rs. 40,000 at the end of 3 years from now and another Rs. 50,000 after 5 years from now. Find the total amount to be deposited in an account offering 10% interest compounded per annum.

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2. "NPV and IRR methods always provide same result." Do you agree? Why?

A project requires an initial investment of Rs.4, 00,000. It is estimated to have a life of 6 years. The estimated net cash flows are as under:

Year	Net Cash Flow (Rs.)
1	50,000
2	70,000
3	90,000

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4	1, 00,000
5	1, 10,000
6	80,000

Cut off rate is 10%. Calculate-

a. Payback Period

b. Net Present Value

c. IRR of the project.

Assume that the standard payback period is 4 years. Should the project be accepted as per each of the above measures?

3. Define cost of capital. Distinguish between Implicit and explicit cost of capital.

PQR Ltd. has the following capital structure:

Particulars	Amount (Rs.)
Equity share capital (2,50,000 shares)	50,00,000
6% Preference share capital	10,00,000
8% Debentures	30,00,000
Total	90,00,000

The market price of the company's equity share is Rs.20. It is expected that company will pay a dividend of Rs. 2 per share at the end of current year, which will grow at 7% for ever.

The tax rate is 30%. You are required to compute the following:

(a) A weighted average cost of capital based on existing capital structure.
(b) The new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 10 % debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged but the price of share will fall to Rs.15 per share.

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4. Explain and illustrate Net Income Approach and Net Operating Income Approach of capital structure.

Calculate Operating, Financial and Combined leverages of the two companies:

Particulars	Zen Ltd.	Jen Ltd.
Sales (Rs.)	25,00,000	45,00,000
Variable Cost	40%	60%
Fixed Cost (Rs.)	5,00,000	8,00,000
Equity Share Capital (Rs.100 each)	10,00,000	20,00,000
20% Debentures (Rs.)	5,00,000	2,00,000

5. What is Modigliani – Millers irrelevance of dividend hypothesis?

PQR Ltd. has 1, 00,000 shares selling at Rs. 300 per share. The company is thinking of paying a dividend of Rs. 24 per share at the end of the current year. The profits of the company for the year are Rs. 40, 00,000 and the company wishes to make new investment of Rs. 24,00,000. The cost of capital is 15%. Using M M Model, calculate:

1) The market price per share at the end of the current year if dividends are paid and if dividends are not paid.

2) The number of share to be issued if dividends are paid.

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6. Discuss the strategies of financing the Working capital requirements.

A company intends to produce a product with its selling price of Rs. 1,000 per unit and expected annual sales of 5,000 units. Variable costs amounts to Rs. 750 per unit and 2 months credit is given to its customers. It is estimated that 10% of the customers will default; others will pay on the due day. Interest rates are 15% per annum. A credit agency has offered the company a system which it claims can help identify possible bad debts. It will cost Rs. 2, 50,000 per annum to run and

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will identify 20% of customers as being potential bad debts. If these customers are rejected no actual bad debts will result. Should the credit system be used?

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