30/12/07

B/JI/05

PG CO-XVIII

POST-GRADUATE COURSE

Term End Examination — December, 2007

M.Com.

FINANCIAL MANAGEMENT

PAPER XVIII

Time — 2 hours *Full marks—50*

(Weightage of marks—80%)

Special credit will be given for accuracy and relevance in the answer. Marks will be deducted for incorrect spelling, untidy work and illegible handwriting. The weightage for each question has been indicated in the margin.

Group – A

Answer **any two** questions : 12½×2

1. What is commercial paper ? How is long term financing different from short term financing ? What is meant by value maximisation ? 2+7+3½

2.(a) What do you mean by 'trading on equity' ?

(b) ITC Ltd. has currently as ordinary share capital of Rs. 25·00 lakh, consisting of 2,500 shares of Rs. 100 each. The management is planning to raise another Rs. 30 lakh to finance the expansion through one of the three possible financial plans. The options are :

(i) Entirely through ordinery shares

(ii) Rs. 15 lakh through ordinary shares and Rs. 15 lakh through Debentures at 8% interest per year.

(iii) Rs. 10 lakh through ordinery shares, Rs. 15 lakh Debentures at 8% interest p.a. and Rs. 5 lakh through preference capital with 10% dividend.

The company's expected earnings before interest & taxes (EBIT) is Rs. 10 lakh. Corporate tax rate is 50%. Which of the financing plans would you recomend based an risk and return ? 4+8½

3. Write short notes on **any three** :

(i) Indian financial system.

(ii) Weighted average cost of capital.

(iii) Net operating income approach.

(iv) Objectives of the firm.

Group – B

Answer **any two** questions : 12½×2

4. Explain the significance of working capital management. State the factors which determine working capital requirements. 6+6½

5.(a) Explain the Gordon's Model of dividend theory.

(b) How dividend can be classified ? 8+4½

6.(a) XY Ltd. is going to purchase two machines, A & B, which are available at a price of Rs. 50,000 each. Net cashflows are expected to be as follows :

Year	Machine - A	Machine - B
	Rs.	*Rs.*
1	15,000	5,000
2	20,000	15,000
3	25,000	20,000
4	15,000	30,000
5	10,000	20,000

Evaluate the two alternatives using NPV method.

A discount rate of 10% is to be used. The present value of Re. 1 at 10% to be received at the end of each year is given below :

Year :	1	2	3	4	5
P.V. Factor at 10%	0·909	0·826	0·751	0·683	0·621

(b) How do you predict sickness of a company ? 10+2½