

Third Year BBM Degree Examinations

August / September 2010

Directorate of Correspondence Course

COMMERCE

(Freshers)

Financial Management & Indian Capital Market

Time: 3hrs.]

[Max.Marks : 80

SECTION – A

I. Answer any **THREE** questions Each carries 5 marks :

5 x 3=15 Marks

1. Write the meaning and importance of Time Value of Money.
2. Briefly explain Company Law Board.
3. Write a note on DFHI.
4. Determine ARR of the following two capital projects.

Particulars	Project X	Project Y
Life	3 years	3 years
Initial Investment	Rs. 4,00,000	Rs. 4,00,000

Profits after tax:

Year 1	Rs. 3,20,000	Rs. 80,000
Year 2	Rs. 2,40,000	Rs. 2,80,000
Year 3	Rs. 1,60,000	Rs. 4,00,000

5. Raju Ltd. has issued 25,000, 12% irredeemable debentures of Rs. 150 each. The cost of floatation of debentures is 5% of the total issued amount. Tax rate of the company is 40%. Calculate the cost of debt.

SECTION – B

II Answer any **TWO** questions. Each carries 10 marks :

10 x 2=20 Marks

6. Explain the functions and role of stock exchanges.
7. Discuss about the Modigliani – Millers approach to capital structure theory.
8. Calculate WACC of super-fast Ltd., from the following data:
 - i) Debt to total funds : 2:5

Condt... 2

- ii) preference capital to equity capital : 1:1
- iii) preference dividend rate : 15%
- iv) interest on debentures : Rs. 20,000 for half – year
- v) EBIT at 30% of capital employed: Rs. 3,00,000
- vi) cost of equity capital is 24%
- vii) tax rate is 35%

9. Balance sheet of ABC Ltd., is as follows:

Liabilities	Rs.	Assets	Rs.
Equity capital (Rs.10)	1,80,000	Fixed assets	4,50,000
14% long-term debt	2,40,000	Current assets	1,50,000
Retained earnings	60,000		
Current liabilities	1,20,000		
	6,00,000		6,00,000

The company's total assets turnover is 3. Its fixed operating cost are Rs. 3,00,000 and its variable cost ratio is 40%. Income tax is 50%.

Calculate :

- 1. Operating leverage 2. Financial leverage and 3. Combined leverage.

SECTION – C

III Answer any THREE questions. Each carries 15 marks :

15 x 3=45 Marks

- 10. What is the need for working capital? Explain the determinants of working capital
- 11. Explain the functionalities on stock exchange
- 12. Who is an investor? What are his grievances? Explain about the remedy through courts.
- 13. Determine the PBP and NPV for the following capital projects:

Year	Project A	Project B
0	-1,70,000	- 1, 25,000
1	+ 60,000	- 50,000
2	- 35,000	+ 1,60,000
3	+ 2,55,000	+1,05,000

Cost of capital is 7.5%

- 14. a) What are the factors affecting dividend policy? Explain

b) A company's cost of capital for specific sources is as under:

Cost of debentures	5% (after tax)
Cost of preference shares	10% (after tax)
Cost of equity shares	14% (after tax)
Cost of Retained earnings	13% (after tax)

The company wishes to raise Rs. 5 lakhs for the expansion of its plant. It is estimated that Rs. 1 lakh will be available as retained earnings and the balance of the additional funds will be raised as under:

Debenture issue	Rs. 3,00,000
Preference share issue	Rs. 1,00,000

Calculate weighted average cost of capital of additional funds along with retained earnings.