

Post-Graduate Course
Term End Examination – 2006

M. Com.

Financial Management

Paper - XVIII

Time : Two 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 *one* question. (15×1=15)

1. What do you understand by value maximization objective of the firm ? Why is it considered superior to profit maximization objective ? 10+5
2. (a) What is 'cost of capital' ? How do you determine the cost of retained earnings ?
- (b) From the following particulars, calculate the weighted average cost of capital of ABC Ltd.

Sources	Amount (Rs.)	Cost (%)
Preference share capital	5,00,000	10%
Equity share capital	8,00,000	12%
10% Debenture	5,00,000	
Retained earnings	2,00,000	

Corporate tax rate 40%. Make assumption where necessary. 4+4+7

Group B

Answer any *one* question. (10×1=10)

3. What is meant by capital structure ? Discuss the essential qualities of a sound capital structure. 4+6
4. (a) what do you mean by 'Trading on Equity' ?
- (b) Calculate the degree of operating leverage, degree of financial leverage and degree of combined leverage from the following informations :-

	A	B	C	
Output (units)	3,00,000	75,000	5,00,000	
Fixed Costs (Rs.)	3,50,000	7,00,000	75,000	
Variable Cost pu (Rs.)	1.00	7.50	0.10	
Interest Expenses (Rs.)	25,000	40,000	NIL	
Selling Price pu (Rs.)	3.00	25.00	.50	3+7

Group C

Answer any *one* question. (15×1=15)

5. (a) State the circumstances under which conflicting ranking would be given by the IRR and NPV method.
- (b) What is capital budgeting ? State the importance of capital budgeting. 10+5
6. Discuss Modigliani and Miller's Model of dividend policy. What are the assumptions of M. M. model ? 10+5

Group D

Answer any *one* question. (10×1=10)

7. What are the causes of industrial sickness ? Discuss the revival procedure of sick units. 5+5
8. Write short notes (any two) 5+5
 - (i) Capital market line and security market line.
 - (ii) Portfolio.
 - (iii) Cash management models.
 - (iv) Positive and negative working capital.