Paper–M.C.–203 : Financial Management and Policy

(Same for USOL Candidates)

Time Allowed : 3 Hrs. **Maximum Marks : 80**

Note : Attempt any **five** questions in all, selecting at least **one** question from each Unit. All questions carry equal marks.

UNIT-I

1. "A finance manager should prefer wealth maximization to profit maximization." Comment and discuss the statement in detail. 16

OR

2. Discuss what future value is. How the future value of a single cash flow, annuity and sinking fund are calculated ? 16

UNIT-II

3. Make a comparison between NPV and IRR methods of capital budgeting. Which one of the two do you consider better and why ? 16

OR

4. An existing company has a machine which has been in operation for 2 years, its estimated useful life is 4 years with no salvage value in the end. Its current market value is Rs. 25000. The management is considering a proposal to purchase an improvement model of the machine which gives the increased output. The relevant particulars are as follows:

Particulars	Existing Machine	New Machine
Purchase Price (Rs.)	60,000	1,07,500
Estimated life in years	6	4
Salvage value	0	0
Annual operating hours	1000	1000
Selling price per unit (Rs.)	3	3
Material per unit (Rs.)	40	40
Output per hour (Units)	15	30
Labour cost per hours (Rs.)	11	16
Consumable stores per year (Rs.)	2000	1000
Repairs & maintenance per year (Rs.)	3000	2000
Working Capital (Rs.)	10,000	20,000
Income tax rate	35	35

Should the existing machine be replaced ? Assume that :

1. Required rate of return is 10% and
2. The company uses written down value method of depreciation @ 20% and it has several machines in the 20% block. 16

UNIT-III

5. What is MM approach of determining cost of capital and capital structure ? Discuss the role of arbitrage in the MM approach. 16

OR

6. Write notes on :

(*a*) EBIT/EPS Analysis 8

(*b*) ROI/ROE Analysis. 8

OR

7. What do you mean by leverage ? How financial leverage affects the business decisions ? Elaborate. 16

UNIT-IV

8. Explain briefly the factors which are to be taken into consideration while planning the working capital requirement of a firm. 16

OR

9. Depending upon the risk exposure of the business, discuss the working capital strategies adopted by the businesses. 16

OR

10. Discuss the Walter and Gordon model of dividend valuation in detail. 16