

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. In what ways is the wealth maximization objective superior to the profit maximization objective? Explain.
2. What is future value? How is the future value of a single cash flow and the future value of an annuity calculated?

UNIT-II

3. Capital and countries ltd. is considering two projects, only one of which can be accepted. The data in respect of these two are given as below :

	Project I	Project II
Outlay	10.000	50.000
NET INFLOWS		
Year I	5.000	10.000
II	5,000	15.000
III	3,000	25,000
IV	2,000	25.000
V	1,500	21,000

Calculate :

(i) The excess present value at 10% and

(ii) The internal rate of return .

Suggest which project should be selected by the firm ?

4. Explain briefly the following methods of capital budgeting bringing out the advantages and disadvantages of each :
- (i) Pay back period method
 - (ii) Accounting rate of return method.
5. Define the concept of cost of capital. State how would you determine the weighted average cost of capital of the firm.

UNIT-III

6. The capital structure of ABC Ltd. consists of an equity share capital of Rs. 10,00,000 (Shares of Rs. 10 per value) and Rs. 10,00,000 of 20% debentures . Sales increased by 25% from 2,00,000 units to 2,50,000 units, the selling price in Rs. 10 per unit, variable costs amount of Rs. 6 per unit and fixed expenses amount to Rs. 2,50,000. Income tax rate is assumed to be 50%. You are required to calculate the following :
- (i) The percentage increase in earnings per share

- (ii) The degree of financial leverage at Rs. 2,00,000 units and Rs. 2,50,000 units.
- (iii) The degree of operating leverage at Rs. 2,00,000 units and Rs. 2,50,000 units.
7. Give a critical appraisal of the traditional approach and the Modigliani-Millers approach to the problem of capital structure.
8. What do you mean by capital gearing? What is its significance? Discuss the effects of high and low gearing on the financial position of the company during various phases of trade cycle.

UNIT-IV

9. Discuss the irrelevance approach of Dividend given by Modigliani and Miller.
10. Discuss the Walter's Approach of dividend. How is it different from Gordon's approach?