

## 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		
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	6,00,000		6,00,000
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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.