

END TERM EXAMINATION

FOURTH SEMESTER [B.COM (HONS.)] MAY- JUNE 2019

Paper Code: BCOM-202

Subject: Fundamentals of Financial Management

Time: 3 Hours

Maximum Marks: 75

Note: Attempt any five questions. All questions carry equal marks.

- Q1 Critically explain the Capital Asset Pricing Model. ✕
- Q2 'Dividend is irrelevant while valuing the companies'. Critically examine the statement in light of the dividend decision.
- Q3 Your Company is considering two projects A and B, each of which requires an initial outlay of Rs 50 million. The expected cash inflow from these projects are:-

Year	Rs in Millions	
	Project A	Project B
1	11	38
2	19	22
3	32	18
4	37	10

- (a) What is the pay back period for each of the projects? ✓
 - (b) If the two projects are independent and cost of capital is 12 per cent, which project(s) should the firm invest in? ✓
 - (c) If the two projects are mutually exclusive and cost of capital is 15 per cent, which project should the firm invest in? ✓
- Q4 (a) Which are the main propositions of traditional approach of capital structure? ✓
- (b) XYZ Ltd has a net operating income of Rs 50 million. XYZ employs Rs 120 million of debt carrying 15 per cent charge. The equity capitalization rate applicable to XYZ is 16 per cent. What is the market value of XYZ Ltd under net income method? Assume there is no tax. ✓

Q5 Prepare an estimate of net working capital form the following information.

Estimated cost per unit of production is Rs 170, which includes raw material Rs 80, direct labour Rs 30 and overheads (exclusive of depreciation) Rs 60.

Selling price is Rs 200 per unit.

Level of activity per annum	104000 unit
Raw material in stock	4 weeks
work-in progress (assume 50% completion stage)	2 weeks
finished goods in stock	4 weeks
Credit allowed by suppliers	4 weeks
Credit allowed to debtors	8 weeks
Lag in payment of wages	1.5 weeks
Cash at bank is expected to be	Rs 25000

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You may assume that production is carried on evenly throughout the year (52 weeks); and wages and overheads accrue similarly. All sales are on credit basis only.

✓ Q6 What is the justification for the goal of shareholder's wealth maximization? Critically evaluate the goals of profit maximization and return on equity maximization. ✓

Q7 (a) What is a company's cost of capital? ✓
(b) Explain the procedure for determining the weighted marginal cost of capital. ✓

✓ Q8 Write a short note on **any three** of the following:-
(a) Difference between NPV & ~~IPV~~ IRR ✓
(b) Time value of money ✓
(c) MM Hypothesis of dividend
(d) Retained earnings are free of cost. ✓

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