MCO-21

Sl. No.

M.Com. (Final) Degree Examination, May/June - 2026

COMMERCE

Course-VI : Financial Management

(CBCS Annual SIM Scheme)

Time : 3 Hours **Maximum Marks : 90**

PART - A

Answer any Three questions. Each question carries 15 marks. (3×15=45)

1. Critically evaluate profit maximization and wealth maximization objectives. Bring out the arguments for and against profit maximization.

2. A Company needs Rs. 62,50,000 for the construction of a new project. The following three financial plans are possible:

Plan 1: The company may issue 6,25,000 equity shares of Rs. 10 per share.

Plan 2: The company may issue 3,12,500 equity shares of Rs. 10 per share and 31,250 debentures of Rs. 100 denomination bearing 8% rate of interest.

Plan 3: The company may issue 3,12,500 equity shares of Rs. 10 per share and 31,250 preference shares of Rs. 100 per share bearing 8% rate of dividend.

Required:

a. If the company's earnings before interest and taxes is Rs. 1,25,000, what are the earning per share under each of three financial plans? Assume a corporate tax rate of 40%.

b. Which financial plan would you recommend and why?

3. Explain the factors determining working capital requirement of a firm.

4. Define cost of capital. Critically examine the components of cost of capital.

5. A Company is considering a proposal to purchase a new equipment. The equipment would involve a cash outlay of Rs. 5,00,000. The expected life of the project is 5 years without any salvage value. Assume that the company is allowed to charge depreciation on straight line method for income tax purpose. The estimated before tax cash inflows (Earnings before depreciation and tax) are given below:

Year	: 1	2	3	4	5
Before tax cash inflows	: 180,000	220,000	190,000	170,000	140,000

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The applicable income tax rate to the company is 35%. The opportunity cost of capital of the company is 10%.

Required to calculate;

a. Pay-back period.

b. Net present value at 10% Discount factor.

c. Internal Rate of Return.

PART - B

Answer any Three questions. Each question carries 10 marks. (3×10=30)

6. "Maximization of profits is regarded as the proper objective of investment decision, but it is not as exclusive as maximizing shareholder's wealth." Comment.

7. The following is the capital structure of Venus Ltd., as on 31-12-2022:

Particulars	**Amount (Rs.)**
Equity shares - 20,000 shares of Rs. 100 each	20,00,000
10% Preference shares of Rs. 100 each	8,00,000
12% Debentures	12,00,000
	40,00,000

The market price of the company's share is Rs. 110, and it is expected that a dividend of Rs. 10 per share would be declared after 1year. The dividend growth is 6%.

i. If the company is in the 30% tax bracket, compute the weighted average cost of capital.

ii. Assuming that in order to finance an expansion plan, the company intends to borrow a Long Term Loan of Rs. 20,00,000 bearing 14% rate of interest, what will be the company's revised weighted average cost of capital? This financing decision is expected to increase dividend from Rs. 10 to Rs. 12 per share. However, the market price of equity share is expected to decline from Rs.110 to Rs. 105 per share.

8. The following information is available in respect of the rate of return on investment (r), the cost of capital (k), and earnings per share (E) of Star Ltd.,

Rate of return (r) = i. 15%, ii. 12%, and iii. 10%.

Cost of capital (k) = 12%.

Earnings per share (E) = Rs. 10.

Determine the value of its shares using Gordon's Model assuming the following:

	Dividend Pay-Out Ratio	Retention Ratio
a.	100	0
b.	80	20
c.	40	60

9. Define Risk. Compare and contrast Systematic risk and Unsystematic risk and its impact on investment.

10. Explain the assumptions of relevance and irrelevance theory of Dividend.

PART - C

Answer any Three questions. Each question carries 5 marks. **(3×5=15)**

11. a. "Financial Management is nothing but managerial decision making on asset mix, capital mix, and profit allocation". Explain briefly.

b. Explain briefly the need and determinants of working capital in a firm.

c. Write an analytical note on Net Operating Income theory to capital structure.

d. Write a note on the implications of Walter's approach of dividend policy.

e. Write a short note on Capital Market Line.
