DIRECTORATE OF DISTANCE EDUCATION
NALSAR UNIVERSITY OF LAW, HYDERABAD

P.G.DIPLOMA IN FINANCIAL SERVICES & LEGISLATIONS

Academic Year: 2019-2020

I Semester - End Semester Examination (December, 2019)

Paper III - 1.1.3. Financial Management

Time: 2 ½ hours. **TOTAL MARKS: 70**

INSTRUCTIONS TO CANDIDATES

1. **The questions to be interpreted as given and no clarification can be sought from the invigilator.**
2. **Only calculator is allowed.**
3. **It is an open book exam. To answer the numerical questions, "Financial formulae and PV Factor & PV Annuity Factor Tables", can be collected from the invigilator.**
4. **No other printed or handwritten materials / mobile phone / electronic devices will be allowed in the Exam hall.**
5. **Answers without Question numbers will not be marked.**
6. **Answers in illegible handwriting will not be taken into consideration.**

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1. Explain in detail all the factors affecting capital structure of a company. **(10 Marks)**
2. Describe the theories of dividends. Also prove any one such theory. **(10 Marks)**
3. What is working capital? Explain in details all the determinants of working of a business organization. (**10 Marks)**
4. What shall be the objective of a business organization? Shall it be Profit Maximisation or Wealth Maximisation? Discuss. **(10 marks)**
5. Consider the following capital structure of a company.

Particulars	Crores in INR
Equity Share Capital	40
11%Debentures	30
13% Preference Share Capital	30
Total	100

The company's equity share is currently trading in the stock market at INR 70. It pays a dividend or INR 3 per equity share. The growth rate in dividend is expected to be 5%. The company is in 25% tax bracket. Calculate the weighted average cost of capital of the company. **(15 Marks)**

6. A company has INR 10,00,000 to invest on a project. It is considering the following two projects:

Year	CFAT of Company A in INR	CFAT of Company B in INR
1	3,00,000	2,00,000
2	3,00,000	3,00,000
3	3,00,000	4,00,000
4	3,00,000	4,00,000
5	3,00,000	3,00,000

Assume that the company's cost of capital is 10%, select the better project based on the following:

a. Payback Period
b. Average Rate of Return
c. Net Present Value
d. Profitability Index
e. Internal rate of Return **(15 Marks)**