Year	Rate of dividend (%)	Market Price (Rs.)
0	16.10	45
-1	14.64	53
-2	13.31	45
-3	12.10	32
-4	11.00	29
-5	10.00	25

If cost of equity share capital is 14%, applying Gordons Model, give your opinion on the formula calculated market price and actual market price.

ii) What are the factors that affect dividend policy of an Organization?

5+5

(***Internal Assessment: 10 marks***)

2016

M. Com.

2nd Semester Examination

FINANCIAL MANAGEMENT

PAPER – COM – 201

Full Marks : 50 ***Time : 2 Hours***

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

UNIT – I

1. Answer any two of the following questions. 5x2

a)Why "Wealth Maximisation" preferred over " Profit Maximisation" as the goal of a firm?

b) A firm has sales of Rs 20,00,000/-, variable cost of Rs 14.00,000/- inclusive of interest of Rs 1,00,000/-. Calculate its i) DOL, DFL and DCL. ii) If the firm decides to double the EBIT, how much of a rise in sale would be needed on a percentage basis?

c) What do understand by "Indifference point" in an EBIT-EPS analysis? Describe in brief.

d) Is there any difference between financial structure capital structure of a company? Discuss.

2. Answer any one of the following questions. 10x1

a) A Company needs Rs 12,00,000/- for the installation of a new factory which is expected to earn an EBIT of Rs 2,00,000/- p.a. The company has the objective of maximizing the earning per share. It is considering the -

(Turn Over)

possibilities of issuing equity shares plus raising a debt of Rs. 2,00,000/-or Rs. 6,00,000/- or Rs 10,00,000/-. The current market price of the share is Rs. 40/- and will drop to Rs. 25/- if the borrowing exceed Rs. 7,50,000/-. The cost of borrowings indicated as under-

Up to Rs. 2,50,000/-	10%
Rs. 2,50,000/- -6,25,000/-	14%
Rs. 6,25,000/- 10,00,000/-	16%

Assuming the tax rate is 35%. Find out the EPS under different options.

b) Z Co. Ltd issued 14% redeemable debentures at a discount of 5%. Face value of the debentures is Rs.100/-. Interest on debentures is payble annually at the end of each year. These debentures are to be redeemed at a premium of 10% after 5 years from now. If floatation cost amounts to 2% of the issue price and loss on issue of debentures is apportioned equally over the 5 years term in each year for the calculation of taxable profit. Calculate cost of debentures. Marginal corporate tax rate is 50 %.

UNIT – II

3. Answer any two of the following questions. ***5x2***

a) The following data are available for P Ltd-

EPS Rs. 3/-, IRR 15%, Cost of Capital 12%.

If Walter's valuation formula holds, what would be the price per share when the dividend pay – out ratio is 50%, 75% and 100%?

b) The finance Department of a corporation provides the following information :

i) The carrying cost per unit of inventory are Rs. 10/-
ii) The fixed cost per order are Rs. 20/-
iii) The member of units required is 30,000/- per year.

Determine: i) The EOQ,
ii) Total numbers of order in a year,
iii) Time gap between the two orders.

c) Write a short note on 'Stability of dividends'.

d) Describe the various types of bank finance to working capital of a company.

4. Answer any one of the following questions. ***10x1***

a) Calculate the operating cycle period from the following figures:

	RS. IN LAKH
Annual Sales	1,000/-
Manufacturing expenses	200/-
Distribution and other expenses	40/-
Purchase of Materials	400/-
Opening Stock :	
Raw materials	80/-
Work-in-progress	20/-
Finished goods	60/-
Closing Stock :	
Raw materials	120/-
Work-in-progress	60/-
Finished goods	20/-
Opening balance of Sundry Debtors	40/-
Closing balance of Sundry Debtors	40/-

The Company obtains a credit for 60 days from its suppliers. All goods are sold for credit. Take 360 days in a Year.

b) (i) Z Company Ltd. has declared and paid dividends on equity shares at the following rate for the last 5 Years. Year 0 indicates the current year and Year -1 indicates one year back in past and so on. Face value of equity share is Rs. 10/-. The year end closing market prices of shares are also given.

Turn over