2018

M. Com.
2nd Semester Examination
Financial Management and Policy

PAPER – COM – 201

Full Marks : 50

Time : 2 Hours

<u>Use separate sheet for each Unit</u>

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

UNIT – I

1. Answer any two questions of the following: 5 X 2

a) Distinguish between: i) Specific cost of capital and overall cost of Capital, ii) explicit cost of capital and implicit cost of capital.

b) Explain the term operating risk and financial risk.

c) The capital structure of a company is

	Rs.
Equity share of Rs. 10 each fully paid	500000
7% Preference share of Rs.100 each	200000
Profit / Reserve	180000
6% Debentures	100000
12% long term Loan	500000

Calculate the company's overall rate of return on capital employed in order to ensure a 15% equity dividend. The company has constantly been maintaining dividend payout ratio. Assume tax rate to be 50%.

d) Briefly explain profit maximization and wealth maximization.

(Turn over)

2. **Answer any one questions of the following:** 10 X 1

a) Calculate the degree of operating leverage, degree of financial leverage and degree of combined leverage for the following firms and interpret the results:

	IT Ltd.	ITI Ltd.	HMT Ltd.
Output (Units)	400000	100000	600000
Fixed Cost (Rs.)	375000	800000	100000
Unit Variable cost (Rs.)	2.00	8.00	0.20
Interest Expenses (Rs.)	50000	60000	Nil
Unit Selling Price (Rs.)	4.00	30.00	1.00

b) i) The following information is available from the Balance Sheet of a Company:

	Rs.
Equity Share Capital 20000 shares of Rs. 10 each	200000
8% Debentures	170000
Reserve and surplus	130000
Tax Rate	50%

Current level of equity dividend is 12%. Calculate the weighted average cost of capital using the above figures.

ii) Show that the degree of operating leverage = Contribution/ EBIT

6 + 4

UNIT – II

3. **Answer any two questions of the following:** 5 X 2

a) Write the objectives of cash management to a firm.

b) i) Explain the meaning of credit term 2/10 net 30.

ii) From the following information, calculate the amount of discount allowed to the customers:
Suppose the amount of credit sales is Rs.60 lakhs and the credit term is 3/20 net 30. Assume 80% customers have taken the discount facilities.

2+3

c) State the problems of excess or inadequate working capital   2+3

d) Give the assumptions of Walter's model of dividend policy.

4. **Answer any one question** 10 × 1 = 10

a) i) briefly explain Walter's Dividend policy of relevance model.

ii) Calculate the market price of a share of ABC Ltd. under Walter's formula from the following data:
Earnings per share Rs.5, Dividend per share Rs.3, Cost of capital 16%, Internal rate of return on investment 20%, retention ratio 50%.   7 + 3

b) You are supplied with the following information in respect of PKC Ltd. for the ensuing year:

Production for the year	69000 Units
Finished Goods in Store	3 Months
Raw materials in store	2 months consumption
Production process	1 month
Credit allowed by creditors	2 months
Credit given to debtors	3 months
Selling price per unit	Rs.50
Raw materials	50% of selling price
Direct wages	10% of selling price
Overheads	20% of selling price

There is a regular production and sales cycle and wages and overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of the production cycle.
You are required to find out:

i.   Its working capital requirement.

ii.   Its permissible bank borrowings as per 1st and 2nd methods of lending.

(*Internal Assessment :10 marks*)