

2019

M. Com.

2nd Semester Examination

FINANCIAL MANAGEMENT AND POLICY

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.

2x2

- a) Explain the financing function of a finance manager.
- b) Write the advantages of debt capital financing in capital structure of a firm.
- c) Distinguish between Operating Leverage and Financial Leverage.
- d) State how you would determine the WACC of a firm.

2. Answer any two of the following questions.

4x2

- a) From the following information of a company prepare income statement for the year ended 31.03.19. Variable cost as a % of sales 50. Interest expenses ` 20000. DOL 3-1. DFL – 2-1. Income tax rate is 50%.
- b) Examine the statement that no debt capital means no financial leverage and more and more debt capital means more and more financial leverage.

(Turn Over)

(02)

- c) What is an indifferent point on the EBIT – EPS analysis? How would you compute it?
- d) X Ltd. wants to issue 10000 new equity shares of ₹ 100 each at per. The floating costs are 5% of the price of shares. The company pays dividend initially @ ₹ 10/share. Dividends are expected to grow 6%. Calculate the cost of new issue of equity share and what will be the cost of existing equity share if the current market price of an equity share is ₹ 200?

3. Answer any one of the following questions. 8x1

- a) From the following information calculate DOL, DFL & DCL and also comment on the result

Product	A	B	C
Output (Units)	100000	100000	100000
Sales price (₹)/unit	7	7	7
Variable cost (₹)/unit	4	3	2
Fixed cost (₹)/unit	100000	200000	250000
Interest on debt capital (₹)	40000	30000	10000

- b) Write short notes on Marginal Cost of Capital, Weighted Average Cost of Capital and Real Cost of Capital.

UNIT – II

4. Answer any two of the following questions. 2x2

- a) Define Gross Working Capital and Net Working Capital.
- b) Explain the term Delinquency Cost in Debtor Management.
- c) Define 'Hedging Policy' in financing the working capital requirements of a firm.
- d) Write a short note on VED analysis.

5. Answer any two of the following questions. 4x2

- a) Explain the matching policy in Working Capital Financing

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(03)

- b) Write the objectives of debtor's management to a firm.
- c) A company's total investment in asset is ₹ 10000000. It has 100000 shares of ₹ 100 each. Its expected rate of return is 30% and the cost of capital is 18%. The company's retaining policy 25% of its profit. Calculate the value of the firm using Gordon's Model.
- d) X Ltd has 100000 shares of ₹ 150 per share. The company is thinking of paying a dividend of ₹ 12 per share at the end of the current year. The profit for the year is ₹ 2000000. It wishes to make new investment of ₹ 1200000. The cost of capital is 15%. Using M-M Model calculate the market price per share at the end of the current year if – dividend are paid and dividend are not paid, also calculate the no of shares to be issued if dividend are paid.

6. Answer any one of the following questions. 8x1

- a) A company's present credit sales amount to ₹ 50 lakh. Its variable cost ratio is 60% and fixed cost amount to ₹ 10 lakh per annum. The company proposes to relax its present credit policy of 1 month to either 2 months or 3 months as the case may be. The following information are also given:

	Present policy	Policy 1	Policy 2
Average age of debtors	1 month	2 months	3 months
Increasing sales	-	20%	30%
Percentage of bad debtors	1%	2.5%	5.0%

If the company requires a return on investment @ 20% before tax, evaluate the proposals.

- b) Outline the recommendations made by the Tandon Committee on the financing of working capital by Banks.

(Internal Assessment: 10 marks)