

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.

Illustrate the answers wherever necessary.

Unit—I

[Marks : 20]

1. Answer any two questions from the following : 2×5
- (a) Why does money have time value? 5
 - (b) Can the value of operating leverage, as measured by DOL be negative? Discuss with the help of an illustration. 5
 - (c) Narrate in brief the concept of wealth maximisation objective of a business firm. 5

(Turn Over)

- (d) Distinguish between explicit and implicit costs of capital with example. 5

2. Answer any *one* question from the following : 1×10

(a) (i) Explain the degree of operating leverage as a representative measure of operating risk from the view point of marginal costing technique.

(ii) What do you mean by increased variability in earning available to the equity shareholders with the increasing amount of debt in capital structure? Explain with the help of an illustration with two hypothetical firms, A and B.

(iii) What do you mean by 'probability of insolvency'? Explain. 4+4+2

(b) M Co. Ltd. issues 14% debentures of Rs.100 each, redeemable phase-wise. Face value of debentures is Rs. 100. Debentures are issued at a flat rate of discount of 10%.

20% of the debentures are to be redeemed at a discount of 5% at the end of 4th year from the time of issue, 50% of the debentures are to be redeemed at par at the end of 5th year from the time of issue and the remaining 30% of the debentures are to be redeemed at premium of 10% at the end of 6th year from the time of issue.

If the marginal corporate tax rate is 40%, calculate cost of debentures. Tax implications of loss on issue of debentures have to be considered in this calculation. May make suitable assumptions. 10

Unit—II

[Marks : 20]

3. Answer any *two* questions : 5×2
- (a) You are given the following information in respect of TNS Ltd. :
- Earnings Rs. 100,000
- Equity capital 5000 shares of Rs.10 each cost of capital 10%.
- Expected rate of return 12%. Assuming that dividend payout ratio is 50%, determine the share price using both Gordon's model and Walter model. $2\frac{1}{2}+2\frac{1}{2}$
- (b) What are the different sources of financing working capital? 5
- (c) What is operating cycle? How to determine operating cycle? What is cash operating cycle? 1+3+1
- (d) Discuss in briefly the importance of cash management. 5
4. Answer any *one* of the following : 1×10
- (a) Discuss M. M. dividend model. Mention the major limitations of this model. 7+3

- (b) (i) Calculate Maximum Permissible Bank Finance from the following information under different methods as recommended by Tender Committee :

Balance Sheet as at 31.03.2015 :

| <i>Liabilities</i> | <i>Amt. (Rs.)</i> | <i>Assets</i> | <i>Amt. (Rs.)</i> |
|--------------------|-------------------|-------------------|-------------------|
| Capital | 25,00,000 | Fixed Assets | 18,00,000 |
| Profit & Loss A/c | 3,00,000 | Investments | 3,00,000 |
| Creditors | 1,50,000 | Stock : | |
| Outstanding | | Raw Materials | 2,00,000 |
| Expenses | 12,000 | W I P | 1,00,000 |
| | | Finished Stock | 5,00,000 |
| | 0 | Debtor | 50,000 |
| | | Cash | 10,000 |
| | | Pre paid expenses | 2,000 |
| Total | 29,62,000 | Total | 29,62,000 |

10% of Net Working Capital is Core Working Capital.

- (ii) Distinguish between conservative and aggressive strategies of working capital financing.

[Internal Assessment : 10 Marks]