(45)

M.Com. 2nd Semester Examination, 2012

FINANCIAL MANAGEMENT

PAPER – COM-201

Full Marks : 50

Time : 2 hours

The figures in the right hand margin indicate marks

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

Illustrate the answers wherever necessary

UNIT – I

1. Answer any *two* questions from the following : 5 × 2

(*a*) Briefly state the wealth maximisation objective of financial management.

(*b*) Give the principal arguments for and against using the book value and market value based weights respectively in calculation of the overall cost of capital.

(*Turn Over*)

(*c*) Show that

$$\text{DFL} = \frac{\text{EBIT}}{\text{EBIT} - I - \dfrac{D_p}{(1-t)}}$$

where

EBIT = earnings before interest and taxes,
I = interest on debt capital,
D_p = dividend on pref. share capital,
t = income tax rate,
DFL = degree of financial leverage.

(*d*) "Financial risk associated with a business firm stems from its capital structure while business risk is independent of it." Examine the validity of the statement.

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

(*a*) (*i*) P. Co. Ltd. has declared and paid the following rates of dividend for the past years as shown below :

Year-end	Dividend rate (in % age)
2007	15
2008	16·5

Year-end	Dividend rate (in % age)
2009	17
2010	18·2
2011	19

Market prices of its equity shares on some selected dates as obtained or anticipated are as follows :

Date	Market price
31.3.2011	80
31.3.2012	86
31.3.2013	96

The face value of shares is Rs. 20. Marginal corporate tax rate is 35%. Calculate cost of equity share capital as on 31.3.2012.

(*ii*) Q. Co. Ltd. issued 16 % debentures on 31.3.2011 at a discount of 5%. The debentures, the face value of which is Rs. 100 are to be redeemed after 5 years from the time of issue at a premium of 10 %. If interests are paid annually at the end of each year and if the marginal corporate tax rate is 40 %, calculate after tax cost of capital as on 31.3.2012. 5 + 5 (*b*) (*i*) "There is a reciprocal relationship between DOL and margin of safety ratio." Explain.

(*ii*) Narrate the usefulness of EBIT-EPS analysis. 5 + 5

UNIT – II

3. Answer any *two* questions : 5 × 2

(*a*) Mention three approaches to finance working capital requirement of a firm.

(*b*) Determine maximum permissible Bank Finance of ABC Co. Ltd. from the following estimated figures :

(*i*) Stock of Raw Materials Rs. 20,000

(*ii*) Stock of Finished Goods Rs. 40,000

(*iii*) Stock as W-I-P Rs. 25,000

(*iv*) The Company allows 15 days credit to its customer.

(*v*) 60% of total sale is credit sale .

(*vi*) To prevent stock out cost, the ABC Ltd. maintains stock of finished goods equivant to 1 month sale.

(*vii*) Company maintain Rs. 4,000 as cash in hand.

(*viii*) Outstanding salary may be for Rs, 15,000

(*ix*) Creditor is estimated at Rs. 18,000.

(*c*) Why do firms follow stable dividend policy ?

(*d*) Narrate the major factors that are to be considered at the time of designing credit policy of a business firm.

4. Answer any *one* from the following :.

(*a*) (*i*) State the Walter model and prove it.

(*ii*) Find out the value of PQR Ltd. from the following information under Gordon model :

(*I*) Profit after Tax of the company Rs. 5,00,000

(*II*) Expected growth rate of earnings 8%

(*III*) Cost of capital 12 %

(*IV*) Rate of return by the company 16 %

(*V*) Earnings per share Rs. 2.50.

(1 + 5) + 4

(*b*) Explain the principal factors to be taken into consideration at the time of selecting working capital financing policy of a firm. 10

[*Internal Assessment* — 10 Marks]