

**2017**

**M.Com. 2nd Semester Examination**  
**FINANCIAL MANAGEMENT AND POLICY**

**PAPER—COM-201**

*Full Marks : 50*

*Time : 2 Hours*

*The figures in the 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* of the following questions : 2×5
- (a) Write a short note on Economic Value Added (EVA). 5
- (b) Mr. X took a house building loan from Bank Y amounting Rs. 10,00,000 @ 12% interest p.a., compounded on a monthly basis. Calculate EMI. Total loan period is 5 years.

5

- (c) "On rupee today is more valuable than one rupee to be received one year hence". Explain in brief.
- (d) Narrate in brief the concept of profit maximisation of a business firm. 5

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

- (a) Following is the excerpt of the balance sheet of Z Co. Ltd. for the year ended on 31st March, 2017 :

5,00,000 equity shares of Rs. 10	
each fully paid up	
(Market price : Rs. 20)	50,00,000
General reserve	10,00,000
12% debentures of Rs. 100	
each fully paid-up	
(Market quotation : Rs. 98)	10,00,000

Following additional information is available :

- (i) The company is expected to maintain the dividend growth on the basis of an average rate as observed for the past years.

For the year ended on 31st March, 2012 :

10% dividend rate

For the year ended on 31st March, 2013 :

11% dividend rate

For the year ended on 31st March, 2014 :

12.5% dividend rate

For the year ended on 31st March, 2015 :

13% dividend rate

For the year ended on 31st March, 2016 :

14% dividend rate

- (ii) The debentures were issued on 31st March, 2017 @ 3% discount. Floatation cost amounts to 2% of the issue price. Although, immediately after allotment, market price of these debentures rose to Rs. 98. Interest on debentures is paid annually at the end of each year. 50% of these debentures are to be redeemed at a premium of 5% after 4 years from the time of issue and the remaining at a premium of 10% after 5 years from the time of issue. Marginal corporate tax rate is 30%. Loss on issue of debentures is to be written off against taxable profit in the ratio of outstanding debentures at the end of each year.

Calculate overall cost of capital, using market value weights. 10

- (b) (i) Is negative value of DOL and DFL possible ? Explain the situation.
- (ii) What is 'probability of insolvency'? How would it augment financial risk of a company ?
- (iii) Write a short note on 'indifference point' in the EBIT-EPS analysis. 4+3+3

### Unit - II

(Marks : 20)

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

- (a) What do you mean by maximum permissible bank finance ? Find out maximum permissible bank finance from the following data under recommendation of Tandon Committee :

	31.3.16	31.3.17
Stock		
- Raw Materials	2,00,000	2,50,000
- W-I-P	3,00,000	4,00,000
- Finished goods	2,50,000	2,75,000
Debtor	4,00,000	3,75,000
Cash & Bank balances	50,000	70,000

	31.3.16	31.3.17
Short term investment	2,25,000	2,80,000
Creditors	1,50,000	2,00,000
Outstanding expenses	50,000	60,000

20% of net working capital is core working capital. 5

- (b) What are the different approaches of working capital management? 5
- (c) What are the situations when Gordon Model of dividend policy cannot be applied? Mention assumption of M-M Hypothesis.  $2\frac{1}{2} + 2\frac{1}{2}$
- (d) Discuss in brief the major costs associated with the maintenance of receivables.

4. Answer any *one* from the following :

- (a) Enumerate the factors which have a bearing on the dividend policy of a company. 10
- (b) (i) What is operating cycle in respect of working capital?
- (ii) Determine the length of operating cycle from the following data :

	31.3.16	31.3.17
<i>Stock :</i>		
Raw Materials	1,00,000	1,20,000
W-I-P	2,00,000	2,20,000
Finished goods	2,50,000	2,50,000
Debtors	5,00,000	4,50,000
Creditors	2,50,000	2,80,000
Other information :		

*Period :* 1.4.16 – 31.3.17

	Rs.
Sales	50,00,000
Purchase of Raw Material	20,00,000
Wages	15,00,000
Overhead	10,00,000
Other Direct expenses	5,00,000

All purchases are made on credit and 50% of total sales are in credit. 2+8

*[ Internal Assessment — 10 ]*