Total Pages—5

PG/IIS/CM-201/11

M.Com 2nd Semester Examination, 2011

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 : 5x2

(*a*) How can 'Cost of Capital' be defined from the financing side ? Give examples of explicit and implicit costs of capital. 3+2

(*b*) Write a short note on 'time value of money'. 5

(*Turn Over*)

(*c*) What are the limitations of the profit maximization concept of the objective of financial management? 5

(*d*) What may be the total risk complexion of the firm by making various combinations of business risk and financial risk? Explain. 5

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

(*a*) P Co. Ltd. issued 5,000 16% redeemable debentures of Rs. 100 each at a discount of 1% on 01.04.2009. Interests are paid annually at the end of each year. Half of the total debentures will be redeemed on 31.03.2012 at par and the remaining half at a premium of 5% on 31.03.2014. The total loss on issue of debentures is shown by the company as admissible expense in the calculation of profit before tax according to the ratio of outstanding debentures in different years. If marginal corporate tax rate is 40%, calculate cost of capital for debentures as on 31.03.2010. 10

(*b*) (*i*) With the help of a hypothetical example show how total risk increases in case of a levered firm in relation to that of an unlevered firm.

(*ii*) Describe any *two* factors causing business risk in a firm. 5 + 5

UNIT—II

3. Answer any *two* questions : 5x2

(*a*) Why working capital requirement differs from one company to another? 5

(*b*) Discuss various forms of financing working capital requirement in brief. 5

(*c*) (*i*) Mention three important assumptions under Walter's model.

(*ii*) Determine the value of the firm XYZ Ltd. from the following information under Walter's model :

Earnings of the company	Rs. 10,00,000
Dividend Paid	Rs. 7,50,000
Share holders expectation from investment	8%
Expected rate of return by the company on investment	0·15
No. of shares of XYZ Ltd.	50,000

2+3

(*d*) What is impact of (*i*) Taxation and (*ii*) Legal requirement on the dividend policy of the firm.

$2\frac{1}{2} \times 2$

4. Answer any *one* question : 10x1

(*a*) What are the assumptions and limitations of the M-M hypothesis. Prove the proposition stated under the hypothesis. 3+2+5

(*b*) X Ltd. sales goods on credit. Its annual credit sales amounted to Rs. 20 Cr. The variable cost ratio is 80%. The credit terms are 2/10, net 30. On current level of sales bad debts are 2%. The past experiance has been that 40% of customers avail cash discount, the remaining customers pay on an average 50 days after the date of sale.

The Debtors of the firm in presently being financed by bank borrowing which carries 20% interest.

The company has an alternative to in house management of receivables, X. Ltd. is thinking to use of non-recourse factoring deal with Ind Bank Factors Ltd. For this outsourcing of receivable management the company could increase its sale by 20%. The main element of structed deal.

(*i*) Advance payment of 90% of Bank debt.

(*ii*) Factor reserve, 10%.

(*iii*) Guranteed payment, 24 days after the date of purchase.

(*iv*) Discount charge, 22%

(*v*) Commission for other service (payable upfront), 4% of the value of Receivables.

You are required to suggest the company whether X. Ltd. should avail factoring services. 10

[*Internal Assessment*—10 Marks]