M.Com. 2nd Semester Examination, 2013

FINANCIAL MANAGEMENT

PAPER —COM- 201

Full Marks : 50

Time : 2 hours

Answer **all** questions

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*) What are the principal limitations of the erstwhile profit maximization concept of the objectives of financial management ? Discuss. 5

(*b*) Y Co. Ltd. has declared and paid divide
on its equity shares having a face valu
Rs. 10 each for the past years, the yi
rates of which along with the market pri
of those shares as on the correspondi
year-end dates are given as follows :

Year-end	Dividend yield (in % age)	Market pric (in Rs.)
2009	3·33	90
2010	4·00	100
2011	5·50	110
2012	6·00	120
2013	9·10	130

If the company maintains the annual average growth rate in the dividends of the past years in the future as well, calculate cost of equity capital as on 31.03.2013.

(*c*) Give the structure of the organization of finance function in a company located in a single place.

(*d*) Prove mathematically the relationship between operating leverage and operating risk. 5

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

(*a*) (*i*) With the help of an illustration, show how presence of loan in the capital structure of a company enhances its total risk.

(*ii*) Z Co. Ltd. has a present sales turnover of Rs. 10 crore. It realised earnings before interest and taxes at a rate of 10 % on the sales. Its existing capital structure is as follows :

1,00,000 Equity shares of Rs. 100 each = Rs. 1,00,00000

15 % Preference shares of Rs. 10 each = Rs. 20,00,000

13% Debentures of Rs. 100 each = Rs 30,00,000.

Now, the company is considering a new project, the investment requirement in which is Rs. 50,00,000. The additional earnings (before interest and taxes) would amount to 15 % of the additional investment. The company has the following two financial plans :

Plan *A* 50 % of the amount by issuing equity shares of Rs. 100 each at a premium of Rs. 100 per share and balance amount by issue of 16 % debentures of Rs. 100 each.

Plan *B* 30 % of the amount by issuing equity shares as mentioned in plan *A*, another 30 % of the amount by issue of 16 % debentures as mentioned in plan *A*, and remaining 40 % of the amount by issue of 12 % preference shares of Rs. 20 each.

If the marginal corporate tax rate is 40 % , advise the company as to accept which financial plan. Also calculate the indifference point between the two plans.

4 + (4 + 2)

(*b*) (*i*) Write a short note on "Overall cost of capital" including its usage.

(*ii*) Z Co. Ltd. issued 14 %, 5-yearly redeemable debentures of Rs. 100 each at a discount of 10 % as an 31.03.12. Interests are paid annually at the end of each year. These debentures are to be redeemed at a premium of 5 %. If the floation cost amounted to 2 % of the issue price, calculate cost of debenture capital as on 31.03.13. Marginal corporate tax rate is 40 %. 4 + 6

UNIT – II

3. Answer any *two* questions : 5 × 2

(*a*) What is the objective of working Capital Management ? Compare between aggressive approach and conservative approach of financing working capital management. 2 + 3

(*b*) Calculate operating cycle period in days : 5

	1.4.12	31.3.13
	Rs.	Rs.
(*i*) Stock of Raw materials	2,50,000	3,50,000
(*ii*) Stock of work-in-progress	2,00,000	2,20,000
(*iii*) Stock of Finished goods	3,00,000	3,30,000

(*iv*) Purchase of raw materials during the year Rs. 14,40,000.

(*v*) Cost of goods sold : Rs. 14,00,000

(*vi*) Sales during the year Rs. 24,00,000

(*vii*) Average Debtor during the year Rs. 4,80,000

(*viii*) Average creditors during the year Rs. 2,40,000.

(*c*) What is the impact of extending credit period and cash discount on profitability of the company ? 5

(*d*) Prove that, "Dividend Policy does not affect value of the firm." 5

4. Answer any *one* from the following questions : 10×1

(*a*) The annual cash requirement of *A* Ltd. is Rs. 50 lakh. The company has marketable securities in lot sizes of Rs. 2,50,000, Rs. 5,00,000, Rs. 10,00,000, Rs. 12,50,000. Cost of conversion of marketable securities per lot is Rs. 5,000. The company can earn

5 % yield on its securities. You are required to prepare a table indicating which lot size will have to be sold by the company. Also show the economic lot size as can be obtained by the Baumol's Model. 7 + 3

(*b*) Discuss the important factors which affects dividend policy of a company. 10

[*Internal Assessment* – 10 Marks]