2014

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 : 5×2

(a) How does the Shareholders' Wealth Maximization concept resolve the ambiguity of the Profit Maximization concept about the objectives of financial management ? Explain. 5

(b) Give the theoretical framework behind calculation of cost of equity share capital of the shares are held for a finite number of years and the dividend per share is constant over the years. What would be the change in the same of the shares are held for an indefinite time ? 3+2

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

(d) From the following ratios and informations given about Z Co. Ltd., calculate degree of financial leverage (DFL) :

Total assets turnover ratio = 2

Gross profit ratio = 20%

Capital structure :	Rs.
1,00,000 equity shares of Rs. 50 each fully paid up :	50,00,000
10,000, 15% Preference shares of Rs. 100 each fully paid up :	10,00,000
General reserve :	20,00,000
14% debentures :	5.00,000
Current liabilities and provisions :	10,00,000

Opening total assets was 80% of the closing total assets.

P/v ratio = 60%

Fixed Cost = Rs. 80,00,000

Corporate tax rate = 40%

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

(a) (i) What do you mean by floatation cost?

(ii) M. Co. Ltd. is expected to follow the old payment pattern of dividend on equity shares in future, flowing which an investor is expected to hold the shares for an indefinite period of time.

Year	*Dividend rate (in % age)*
— 4	14%
— 3	16%
— 2	18%
— 1	19%
0	20%

Face value of equity shares is Rs. 100, which is currently selling in the market @ Rs. 150 per share. Assuming a constant average growth rate in dividend to exist in future as well, calculate cost of equity share capital.

3+7

(b) (i) Discuss the causal factors of business or operating risk.

(ii) Explain the concept of zero leverage.

(iii) What is 'indifference point' in EBIT-Eps Analysis ? How is it applied in choosing a particular financing plan ?

4+2+(2+2)

Unit—II

[Marks : 20]

3. Answer any *two* questions : 5×2

(a) Why financial of working capital is important ? What are the different approaches of financing working capital ? 1+4

(b) Find out maximum permissible bank finance of a manufacturing company from the following information apply recommendation of Tandon committee.

(i)	Stock :	
	Raw material	Rs. 2,20,000
	W-I-P	Rs. 75,000
	Finished goods	Rs. 1,70,000
(ii)	Receivables :	
	Debtors	Rs. 50,000
	Post dated cheques	Rs. 12,000
(iii)	Cash :	
	in hand	Rs. 7,000
	at Bank	Rs. 65,000
(iv)	Very short term investment	Rs. 24,000
(v)	Creditor	
	Material :	Rs. 54,000
	Employee :	Rs. 30,000
	Other :	Rs. 35,000

(vi) 30% of Gross Working Capital is core current Asset.

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(c) What is motive of having liquid cash in hand or bank ? What is objective of cash management ?

$3\frac{1}{2}+1\frac{1}{2}$

(d) What is the objective of dividend policy ? What are the limitations of Gordon Model of dividend policy ?

$1\frac{1}{2}+3\frac{1}{2}$

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

(a) Discuss how receivable management affects profitability on following points.

(i) Credit standard;

(ii) Credit Period;

(iii) Cash Discount;

(iv) Collection effect.

2×4

How payable should be managed by a firm?

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(b) (i) State the Walter Model of respect of dividend policy.

(ii) Prove the model 1+5

(iii) Find out value of the firm using Walter Model from the following information :

1. No of Shares 2,25,000
2. Earning Per share Rs. 7
3. Dividend per share Rs. 3
4. Rate of Return of the company 20%
5. Cost of capital 12%

Suggest the company that if the company increases dividend, whether value of the company will increase in that case.

3+1

[Internal Assessment : 10 Marks]