

2015

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) Write about one short-term and another long-term source of finance. 5
 - (b) Explain the concept of Agency Theory. 5
 - (c) How would you ascertain cost of equity using CAPM ? 5
 - (d) What are the different finance functions operationally ? 5

(Turn Over)

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

(a) Z Co. Ltd. has issued 12% redeemable debentures of Rs. 100 each at a discount of 5% one year ago from now. Interests on debentures are paid annually at the end of each year. Debenture holders are given an option to seek redemption at par at the end of 4th year from the time of issue. Only 50% of them are expected to exercise such option. Hence, the company plans to announce a compulsory redemption of the remaining 50% 2 years later at a premium of 10%. If loss on issue of debentures as anticipated at the time of issue is allowed to be set off from taxable profit of the company in the proportion of outstanding debentures at each year-end and if the marginal corporate tax rate is 40%, calculate cost of debentures as of now. 10

(b) (i) Explain the concept of Indifference point with graphical presentation.

(ii) The following data are available for TNS India Ltd. :

DOL	3
EBT	Rs. 70,000
Interest on borrowed Capital	Rs. 20,000

Find fixed cost.

(iii) A company operates at a production level of 5000 units. The contribution is Rs. 60 per unit, degree of operating leverage is 6 and degree of combined leverage is 24. If tax rate is 30%, what would be its earnings after tax? There is no preference shares.

3+3+4

Unit—II

[Marks : 20]

3. Answer any *two* questions : 5×2
- (a) State the basic assumptions underlying Gordon's dividend model. 5
- (b) How (i) taxation & (ii) future expansion programme affect the value of the firm ? $2\frac{1}{2} \times 2$
- (c) A company is considering an increase in credit period from 30 to 60 days. The average collection period is expected to increase to 75 days instead of 45 days. Total credit sales are expected to increase by 4,500 to 34,500 units. The present average cost per unit is Rs. 8, the variable cost Rs. 6 and selling price is Rs. 10 per unit respectively. The company expects a return of 15% p.a. on its investment, should the firm extend the credit period ?
- (d) J Ltd. request you to calculate the net working capital cycle from the following data :
- (i) Raw materials storage: 20 day period.
 - (ii) Raw materials processing 30 day period.
 - (iii) Finished goods storage 15 day period.
 - (iv) Debtors payment period: $\frac{1}{2}$ of processing period.
- Calculate the net operating cycle. If the average working capital requirement is 12,000 per day, what would be the net working capital requirement ? 5

4. Answer any *one* of the following : 10×1
- (a) Discuss in detail the ways of financing working capital. 10
- (b) FORESIGHT LTD has a capital of Rs. 10,00,000 in equity shares of Rs. 100 each. The shares are currently quoted at per. The company proposes declaration of a dividend of Rs. 10 per share at the end of the current financial year. The capitalisation rate for the risk class to which the company belongs is 12% what will be the market price of the share at the end of the year if :
- (i) dividend is not declared.
- (ii) dividend is declared.
- (iii) Assuming that the company pays the dividend and has net profits of Rs. 5,00,000 and makes new investments of Rs. 10 lakhs during the period, how many shares must be issued? Use MM Model. (3+3+4)

[Internal Assessment : 10 Marks]
