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2019

M.COM.

2^{nd} Semester Examination

FINANCIAL POLICY AND 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.

(*Turn Over*)

Unit – I

(Marks : 20)

1. **Answer any *TWO* questions of the following :**

2 X 2

a) Write a short note on 'Shareholders Value Added (SVA)' .

b) Explain the financing function of a finance manager.

c) Do you think that cost of capital plays a crucial role in financing decision to a finance manager?

d) Mr. X expects to get a fixed sum of Rs. 12,000 at the end of each year from an investment for 12 Years. If the discount rate is 6%, calculate the present value of the future cash flows?

2. **Answer any *TWO* question of the following :**

4 X 2

a) "Operating risk is associated with the cost structure, whereas financial risk is associated with capital structure of a business concern." – Critically examine the statement.

b) Show that under dividend growth model

Cost of equity $(Ke) = \frac{D_1}{P_0} + g$

Where D_1 = Dividend per share at the end of first year

P_0 = Current market price for equity share
g = Growth rate of dividend

c) From the following date of X Company prepare income statement for the year ended 31.3.2019.

Variable cost as % of sales	50
Interest expense	Rs 20,000
Degree of operating leverage	3
Degree of financial leverage	2
Income tax rate	55%

d) The following information are related to S Ltd.

	Rs. In Lakhs
EBIT	1,120
EBT	320
Fixed Cost	700

Calculate the percentage changes in EPS if sales *increases* by 5%.

3. **Answer any *ONE* question of the following :**

8 X 1

a) The following particulars relate to Agarwal Ltd . at the end of 2018 :

i) Rs. 5,00,000 Equity Shares of Rs. 10 each. Present dividend per share is Rs. 15; market price Rs.100 per share; growth rate in dividend 5%.

ii) Retained earnings Rs. 2,00,000

iii) 8%, Rs. 5,00,000 Preference Shares of Rs. 50 each issued at a discount of 5%

iv) Debentures of Rs. 1000 each, repayable at par in 2024, were issued as follows:
Type A : 200 A Debentures of 13% issued at a discount of 10%
Type B : 100 B Debentures of 13.5% issued at a premium of 10% Assuming Agarwal Ltd is in 50% tax bracket and that it uses book values as weights, Calculate the Overall Cost of Capital of Agarwal Ltd.

b) Calculate the Degree of Operating leverage, Degree of Financial leverage, the Degree of Combined leverage for the following firms and interpret the results

	IT Ltd.	ITI Ltd.	HMT Ltd.
Output (units)	4,00,000	1,00,000	6,00,000
Fixed Cost (Rs)	3,75,000	8,00,000	1,00,000
Unit Variable	2.00	8.00	.20
Interest Expense (Rs)	50,000	60,000	Nil
Unit Selling Price (Rs)	4.00	30.00	1.00

Unit – II

(Marks : 20)

4. **Answer any *TWO* questions of the following :** **2 x 2**

a) What are the objectives of Working Capital Management ?

b) Briefly explain the concept of operating cycle.

c) According to Gordon's dividend capitalization model, if the share price of a firm is Rs. 43, its dividend pay-out ratio is 60%, cost of equity is 9%, ROI is 12%, and the number of shares are 12,000. What will be the net profit of the firm?

d) When higher dividend payout is recommended under Walter Model?

5. **Answer any *TWO* questions of the following :** **4 x 2**

a) Determine Maximum Permissible Bank Finance (MPBF) as per recommendation of Tandon Committee :

i) Stock :

- Raw Materials	Rs. 6,00,000
- Work in Progress	Rs. 2,30,000
- Finished goods	Rs. 7,20,000

[25% of Stock in core stock]

ii) Debtor : 2 weeks sale

iii) Cash : Rs 5,00,000

[10% of cash in core cash requirement]

iv) Creditors : Rs 7,00,000

v) Short term loan :

Bank loan Rs 1,25,000

Other loan Rs 60,000

vi) Sale per year Rs 52,00,000

b) How increase in credit period to debtors affect profitability of the firm?

c) ABC Ltd. has an estimated cash payment of Rs. 8,00,000 for a 1 month period and the payments are expected to steady over the period. The fixed cost per transaction is Rs. 250 and the interest rate on marketable securities is 12% p.a. Calculate the optimum transaction size as per Baumol's model.

d) The earnings per share of XYZ Ltd. is Rs. 10 and the rate of capitalization applicable is 12%. The company has before it an option of adopting (a) 50% and (b) 100% dividend payout ratio. Calculate the market price of the share as per Walter's Model if it can earn a return of (i) 20% and (ii) 12% on its retained earnings.

6. **Answer any one question of the following : 8 X 1**

a) (i) 'Dividend Policy does not affect Share Price'. Do you agree? Prove your argument theoretically. **(1 + 4)+3**

(ii) What are the assumptions of M M Hypothesis?

b) Find out working capital in each of the following two cases :

[periods in months]

	Case I	Case II
Raw materials in Stock	2	3
Processing time	3	2
Finished goods storage	1	1
Credit to Debtors	2	3
Credit from creditor	1	1
Time lag in wage payout	½	½

Other information :

Average monthly production : 1,500 units

Cost per Unit :	Rs.
Direct Materials	10
Direct Labour	6
Overheads	4
	20

4+4

(Internal Assessment 10 marks)