

2022

M.Com.

2nd Semester Examination

FINANCIAL MANAGEMENT AND POLICY

PAPER—COM-201

Full Marks : 50

Time : 2 Hours

The figures in the 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 - 1

1. Answer any *two* questions : 2×2

(a) What is the utility of an Annuity Table ?

(b) What is floatation cost ?

(c) Write a few lines on 'change in demand' as a factor of business risk.

(d) What is negative leverage ?

(Turn Over)

2. Answer any *two* questions : 2×4
- (a) Write a short note on 'time value of money'.
 - (b) How does agency problem affect maximization of shareholders wealth? Discuss with suitable examples.
 - (c) Cost of reserve has no cost. Do you agree with the statement?
 - (d) Write a note on 'shareholder value'.

3. Answer any *one* question : 1×8
- (a) Z Co. Ltd. issued 12% debentures one year ago from now at a discount of 10% on its face value of Rs. 100. Following redemption schedule is available for the debentures issued :
- After 4 years from the time of issue @ 10% discount, after 5 years from the time of issue @ par and after 6 years from the time of issue @10% premium.
- It is expected that 20% of the debentureholders may opt for redemption after 4 years, 30% after 5 years and remaining 50% after 6 years.

Considering a marginal corporate tax rate of 40%, calculate after-tax cost of debentures. Make necessary assumptions.

- (b) With an illustration, show how financial risk enhances total variability in earnings of the equity shareholders

Unit - 2

4. Answer any *two* questions : 2×2

- (a) What do you mean by retention ratio ? State one determinant of retention ratio.
- (b) What is the objective of working capital management ?
- (c) What is cash cycle in working capital management ?
- (d) What are the different techniques of cash management ?

5. Answer any *two* questions :

2×4

- (a) Discuss the different approaches of financing working capital, in brief.
- (b) State the MM Hypothesis in dividend policy and prove it.
- (c) Show (i) Taxation and (ii) Expansion programme affect the dividend decisions ?
- (d) Find out Maximum Permissible Bank Finance under the recommendation of Tandon Committee :

<i>Liabilities</i>	₹	<i>Assets</i>	₹
Capital	500000	Fixed Assets	450000
Reserve & Surplus	200000	Investment	330000
Loan	100000	Stock :	
Bills Payable	4000	Raw materials	15000
Sundry creditors	16000	WIP	7000
Outstanding Salary	4000	Finished Goods	16000
Loan Payment	10000	Debtors	10000
		Cash & Bank	8000

6. Answer any one question :

1×8

(a) (i) What is the significance of Maximum Permissible Bank Finance?

(ii) Find out length of operating cycle from the following information :

(1) Annual Sales (40% cash sales) : 14 cr.

(2) Annual Purchase (70% cash purchase) : 10.5 cr.

(3) Annual Cost of Production Rs. 12.25 cr.

(4) Consider 1 year = 350 days

(5) Components of working capital :

Components	2018-19 (Rs. Lakh)	2019-20 (Rs. Lakh)
Cash	0.4	0.6
Inventory :		
Raw material	7.0	7.4
Finished Goods	8.5	9.5
Debtors	6.6	6.0
Creditors	3.5	4.0

(b) What is dividend policy of a firm? What are the different types of dividend policy? Determine the value of the company from the following information under Walter model. Comment on the dividend policy of the firm.

(i) Market Capitalisation : 65,00,000

(ii) Profit after Tax : ₹ 4,00,000

(iii) Dividend yield : 2%

(iv) Rate of return 20%

(v) Cost of Capital 12%.

2+2+4

[Internal assessment - 10]
