M.Com. 2nd Semester Examination, 2023

COMMERCE

PAPER – COM-201(Old)

(*Financial Management and Policy*)

Full Marks : 50

Time : 2 hours

The figures in the right hand margin indicate marks

Candidates are required to give their answers in their own words as far as practicable

COM-201.1

[*Marks* : 20]

1. Answer any *two* questions of the following :   2 × 2

   (*a*) Give the relationship between degree of operating leverage and margin of safety, and write a sentence on such relationship.

   (*b*) What may be the formula of present value of some sum to be received in future when

interest is paid half-yearly when it becomes due ? Write the full form of notations used.

(c) Define implicit cost of capital and give one example.

(d) Define Shareholder's Value Added.

2. Answer any *two* questions of the following : 4 × 2

(a) What are the different motives of an individual's holding money at present in comparison to an offer of obtaining the same in future ? Discuss.

(b) How is total leverage obtained from its individual components ? Which combination may be ideal and why ?

(c) What may be the solutions to the agency problems and which one is considered to be most effective ?

(*d*) Prove that for an irredeemable debenture with necessary assumptions : $k_d = i(1 - t)/B_0$, when k_d = cost of debentures, t = marginal corporate tax rate, and i = annual interest on debentures.

3. Answer any *one* question of the following : 8×1

   (*a*) Z Co. Ltd. issues 12% redeemable debentures of Rs. 100 each at a discount of 10% which are offered for redemption after 5 years from the time of issue at a premium of 10%. If loss on issue of debentures is written off equally over its duration, interest is paid annually at the end of each year and marginal corporate tax rate is 40%, calculate after-tax cost of debentures.

   (*b*) Describe Shareholders' Wealth Maximization concept to explain the objectives of Financial Management. Also point out how could the concept solve the limitations of the profit maximization concept ? $5 + 3$

COM-201.2

[*Marks* : 20]

4. Answer any *two* questions from the following : 2 × 2

(*a*) What is the objective of dividend policy of a company ?

(*b*) State the Modigliani Millar Hypothesis in the context of Dividend Policy.

(*c*) How nature of business influences working capital requirement ?

(*d*) Find out raw material holding period in days from the following information :

    (*i*) Opening Stock of raw material = 5,00,000.

    (*ii*) Opening Stock of raw material = 6,00,000.

    (*iii*) Weekly consumption of raw material 77,000.

5. Answer any *two* questions from the following : 4×2

   (*a*) What are the different approaches of financing working capital ?

   (*b*) Mention four factors of dividend policy in brief.

   (*c*) Determine the value of PQR Ltd. from the following information :

      (*i*) Dividend Payout ratio = 0.3

      (*ii*) Profit after tax = Rs. 40 cr.

      (*iii*) Cost of equity = 10%

      (*iv*) Rate of return = 18%

   (*d*) What are the functions of cash management ?

6. Answer any *one* question from the following : 8×1

   (*a*) (*i*) Define operating cycle with an example.

      (*ii*) Determine Maximum Permissible Bank Finance as per recommendation of

Tandon Committee from the following Balance Sheet :

Balance Sheet of ABC Co. Ltd.

Liabilities	Amount(₹)	Assets	Amount(₹)
Capital	50,00,000	Plant & Machinery	51,50,000
Reserve & surplus	15,00,000	Stock :	17,35,000
		Raw Material : 6,70,000	
		W-I-P : 4,00,000	
		Finished Stock : 6,65,000	
Outstanding Wages	80,000	Debtors & Receivables	4,28,000
Sundry Creditors	3,85,000	Cash in hand	32,000
		Cash at Bank	2,90,000
Total	69,65,000	**Total**	69,65,000

Core current asset is 10%   3 + 5

(b) State the assumptions of Gordon Model. Prove the Gordon Model to establish the relation between share price and dividend.   8

[Internal Assessment — 10 Marks]