M. Com. 2nd Semester Examination, 2025

COMMERCE

(Advanced Financial Management)

PAPER — COM-201

Full Marks : 50

Time : 2 hours

Answer **all** questions

The figures in the right hand margin indicate marks

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

PAPER — COM-201.1

1. Answer any *two* questions of the following :
   5 × 2

   (a) What is the modern statement about the objective of Financial Management in a company ? How can it be restated considering the agency problems ?   3 + 2

(b) Interpret "beta" values of +1, 0, a positive value, a negative value and –1 as the market risk measure of equity shares.   5

(c) Discuss the principle of "economies of scale" behind the decision of merger of two companies. State one common problem as could be faced by a merged entity out of mergers of one traditional company and one modern company. 3 + 2

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

(a) Z Co. Ltd. issues 12%, 5-yearly redeemable preference shares at a discount of 10%. If the face value of such shares is Rs. 1000, corporate marginal tax rate is 30% and the redemption takes place at a premium of 10%, calculate cost of capital assuming that the preference share dividend is to be regularly paid at the end of each year.

(Continued)

(b) A Co. Ltd. and B Co. Ltd. have the following excerpt of capital structure :

	A Co. Ltd. (in Rs.)	B Co. Ltd. (in Rs.)
Equity shares of Rs. 10 each	100000	50000
12% Redeemable preference shares of Rs. 100 each	—	20000
14% Redeemable debentures of Rs. 1000 each	—	30000

If the marginal corporate tax rate is 30% and both the companies have figured an EBIT of Rs. 10000, show the comparative risk of investment in the equity shares of the companies and interpret the result.

PAPER — COM-201.2

3. Answer any *two* questions from the following :

5 × 2

(a) (i) How does taxation affect dividend policy ?

(*ii*) When the growth rate of a company is higher than cost of capital, how can we determine share price of the company ? Put logic against your answer. 3 + 2

(*b*) (*i*) What is an Ageing schedule in Debtor Management ?

(*ii*) Following is the ageing schedule of a company before and after a new debtor policy. Comment on the efficacy of the policy.

Age of Receivables (Days)	Receivables (₹) (31-Mar-2024)	Receivables (₹) (31-Mar-2025)
0—30	40,000	80,000
31—60	1,00,000	1,00,000
61—90	70,000	50,000
91 and above	40,000	20,000

2 + 3

(*c*) Discuss five determinants of working capital requirement of a business firm.

4. Answer any *one* question : 10×1

(a) (*i*) Explain the concept of operating cycle.

(*ii*) Sigma Tools Ltd., a manufacturer of industrial cutting tools, provides the following data for the financial year 2023-24 :

I. Inventory and Sales Data :

II. Opening Raw Material Inventory : ₹4,00,000

III. Closing Raw Material Inventory : ₹6,00,000

IV. Raw Material Purchased : ₹36,00,000

V. Raw Material Consumed : ₹34,00,000

VI. Opening Work-in-Progress : ₹3,00,000

VII. Closing Work-in-Progress : ₹5,00,000

VIII. Direct Labour : ₹18,00,000

IX. Factory Overheads : ₹10,00,000

X. Opening Finished Goods Inventory : ₹7,00,000

XI. Closing Finished Goods Inventory : ₹8,00,000

XII. Cost of Goods Manufactured : ₹64,00,000

XIII. Cost of Goods Sold : ₹63,00,000

XIV. Total Sales (Credit) : ₹80,00,000

XV. Credit Sales (90% of total) : ₹72,00,000

XVI. Receivables and Payables :

XVII. Opening Debtors : ₹9,00,000

XVIII. Closing Debtors : ₹11,00,000

XIX. Opening Creditors (for raw materials) : ₹5,00,000

XX. Closing Creditors (for raw materials) : ₹7,00,000

Compute :

(A) Gross Operating Cycle (in days)

(B) Net Operating Cycle (Cash Conversion Cycle)   2 + (6 + 2)

(b) (i) State any three assumptions of the M-M Hypothesis. Prove the Hypothesis.

(ii) ABC Ltd. has the following financial data :

Earnings per share (EPS) = ₹8

Dividend per share (DPS) = ₹4

Cost of equity capital (ke) = 12%

Return on retained earnings (r) = 15%

The company has no debt in its capital structure. Assume that all earnings are either distributed as dividends or reinvested internally.

Required :

Calculate the market price per share using Walter's Model.

Comment on whether the company should retain more earnings or increase dividend payout.   (3 + 4) + (2 + 1)

[Internal Assessment — 10 Marks]