POST-GRADUATE COURSE

Term End Examination : June, 2017

COMMERCE

Paper-XVIII : Financial Management

Time : 2 Hours **Full Marks : 50**

(Weightage of Marks : 80%)

Special credit will be given for accuracy and relevance in the answer. Marks will be deducted for incorrect spelling, untidy work and illegible handwriting. The weightage for each question has been indicated in the margin.

MODULE – I

Answer any *two* questions : $12\frac{1}{2} \times 2 = 25$

1. a) Explain the important functions of a finance manager in a Public Limited Co.

   b) Describe the Net Operating Income Theory of capital structure planning. $6 + 6\frac{1}{2}$

2. a) Firm *A* and *B* are identical in every respect except that *A* is unlevered while *B* has Rs. 5,00,000 of 3% debenture. Both the

firms have EBIT Rs. 80,000 and equity capitalisation rate 10%.

Calculate the value of the firm *A* & *B* according to the MM approach (Assume the tax rate is 30%).

   b) Is there any relationship between risk and return ? $8 + 4\frac{1}{2}$

3. a) The 'cost of capital' is always calculated after tax basis. Explain.

   b) From the following particulars calculate :

   (i) Degree of operating leverage

   (ii) Degree of financial leverage

   (iii) Degree of combined leverage.

   Sales Rs. 1,00,000, Variable cost Rs. 25,000, Fixed cost Rs. 15,000, Interest Rs. 10,000. $6 + 6\frac{1}{2}$

4. a) The following is the capital structure of a company.

Source	Amount	Cost
Equity share capital	Rs. 5,00,000	15%
Preferential share capital	Rs. 3,00,000	12%
Debenture	Rs. 4,00,000	10%
Retained Earnings	Rs. 1,00,000	15%

Calculate the weighted average cost of capital.

b) Discuss the important features of venture capital. $6 + 6\frac{1}{2}$

MODULE – II

Answer any *two* questions : $12\frac{1}{2} \times 2 = 25$

5. a) Discuss the Gordon's Model of dividend policy with necessary assumptions.

b) What is meant by operating cycle concept ?

$8 + 4\frac{1}{2}$

6. A firm is considering pushing up its sales by extending credit facilities to the following categories of customers :

(i) Customers with a 10% risk of non-payment, and

(ii) Customers with a 25% risk of non-payment.

The incremental sales expected in case of category (i) are Rs. 50,000 while in case of category (ii) they are Rs. 70,000.

The cost of production and selling costs are 60% of sales while the collection costs amount to 5% of sales in category (i), and 10% of sales in category (ii).

You are required to suggest the firm about extending credit facilities to each of the above categories of customers. $12\frac{1}{2}$

7. a) What are different types of cash management models of a company ?

b) What do you mean by terminal values ?

$8\frac{1}{2} + 4$

8. Write short notes on :

a) JIT

b) Symptoms of sick units

c) CAPM. $4 + 4\frac{1}{2} + 4$