Total number of printed pages–4

47 (4) FIMN 4·3

2018

FINANCIAL MANAGEMENT

Paper : 4·3

Full Marks : 80

Time : Three hours

The figures in the margin indicate full marks for the questions.

1. Fill in the blanks with most appropriate word/words : 5×1=5

   (a) According to the traditional approach, the scope of finance function is restricted to __________.

   (b) According to the Modigliani and Miller theory, the total value of the firm is __________.

   (c) Fresh issue of shares is a remedial measure of __________ capitalisation.

   (d) Degree of financial leverage = __________.

   (e) Payment of dividend at usual rate is called __________ dividend.

Contd.

2. Answer the following in ***one*** sentence : 5×1=5

(a) What is retained earning ?

(b) What is the full form of SEBI ?

(c) What is operating leverage ?

(d) What is capitalisation ?

(e) What is optimal capital structure ?

3. Answer the following : 5×2=10

(a) State *any two* limitations of Financial Management.

(b) Name *four* theories of Capital Structure.

(c) What is preemptive right of equity shareholders ?

(d) State *any two* causes of over-capitalisation.

(e) State *any two* determinants of dividend policy.

4. Answer/Solve the following : ***(any four)*** 4×5=20

(a) Write a short note on the Wealth Maximisation Goal of business.

(b) Write *any five* differences between shares and debentures.

(c) Write a short note on the powers of SEBI.

(d) What are the causes of Under-capitalisation ?

(e) From the following information of a business, compute operating leverage under the following two situations :

(i) if fixed cost is ₹8,000

(ii) if fixed cost is ₹10,000

Installed capacity	1200 units
Actual capacity used	800 units
Selling price p.u.	₹10
Variable cost p.u.	₹8

Sales ₹8000
(-) V.C = 6400
1600
(-) F.C =

(f) A business concern is considering an expenditure of ₹80,00,000 for expansion. The following information is available :

Number of existing equity shares are	₹10,00,000
Market value of existing share is	₹60
Net earnings	₹90 lakhs

EPS/MP × 100

EPS/NP

You are required to compute the cost of existing equity share capital and also of new equity capital. Assume that new shares will be issued at a price of ₹52 per share and the costs of new issue will be ₹2 per share.

5. Answer/Solve the following : ***(any five)***

5×8=40

(a) What is the scope of finance function ?

(b) What are the factors that determine the capital structure ?

(c) "Debentures occupy a very important place in the financial plan". Discuss the statement and point out the limitations of debt financing. 5+3

(d) Which is more harmful — over-capitalisation or undercapitalisation ? Discuss.

(e) What is financial leverage ? Discuss the relationship between debt financing and financial leverage.

(f) How is cost of equity capital ascertained ? Explain using formulae and illustrations.

(g) Explain Walter's model of dividend decision. Explain *any five* factors affecting dividend decision. 3+5

Total number of printed pages–5

47(4) FIMN 4·3

2014

5(8)

FINANCIAL MANAGEMENT

Paper : 4·3

Full Marks : 80

Time : Three hours

The figures in the margin indicate full marks for the questions.

1. Fill in the blanks with appropriate words : $1 \times 5 = 5$

   (a) A fixed rate of ________ is payable on debentures.

   (b) Degree of operating leverage = ________

   (c) It is better for a company to remain in ________ gear during the period of depression.

   (d) Issue of bonus share is a remedial measure for ________.

   (e) Cost of capital is the ________ rate of return expected by its investors.

Contd.

2. State whether the following statements are true *or* false : $1 \times 5 = 5$

(a) The issue of bonus shares amounts to a corresponding increase in the paid-up capital of the company.

(b) Increased use of debt increases the financial risk of equity shareholders.

(c) Traditional approach confines finance function only to raising of funds.

(d) According to Walter's model, dividend decision affects the value of the firm.

(e) Ownership securities are represented by debentures.

3. Answer the following : ***(maximum fifty words)*** $2 \times 5 = 10$

(a) What is finance function ?

(b) State *any two* causes of over capitalisation.

(c) How is capitalisation calculated on the basis of 'Cost Theory' ?

(d) What is composite leverage ?

(e) Why is preferred stock also termed as 'hybrid security' ?

4. Answer the following : ***(any five)*** 4×5=20

(a) Write a short note on the importance of capital-gearing and dividend pay-out ratio. 2+2=4

(b) What is optimal capital structure ? Explain.

(c) How is cost of retained earnings ascertained ?

(d) State *four* differences between shares and debentures.

(e) Explain *any two* types of dividend policy. 2+2=4

(f) A firm has sales of ₹ 15,00,000, variable costs of ₹ 8,00,000 and fixed costs of ₹ 5,00,000. It issues debentures of ₹ 8,00,000 carrying 10% rate of interest. Calculate

(a) Operating leverage and

(b) Financial leverage.

(g) How does financial leverage help in maximising the profits of a firm ?

5. Answer the following : ***(any five)*** 8×5=40

(a) 'The consequences of over capitalisation are far more serious than under capitalisation'. Discuss.

(b) What are debentures ? What are the different types of debentures that can be issued by a joint stock company ? Explain briefly. 2+6=8

(c) What is reserve ? Explain the various types of reserves that can be maintained by a company. 2+6=8

(d) What are the functions of SEBI in respect of issue of capital ?

(e) What is the scope of financial management ? What are the functions of a finance manager ? 4+4=8

(f) Dell Ltd. has the following book value capital structure :

	(in ₹ millions)
Equity capital (10 million shares @ ₹ 10 per share)	100
11% Preference Capital (1,00,000 shares @ ₹ 100 per share)	10
Retained earnings	120
13·5% Debentures (5,00,000 debentures @ ₹ 100 per debenture)	50
12% Term loans	80
	360

The next expected dividend per share is ₹ 1·50. The dividend per share is expected to grow at the rate of 7%. The market price per share is ₹ 20. Preference stock, redeemable after 10 years is currently selling for ₹ 75 per share. Debentures redeemable after 6 years are selling at ₹ 80 per debenture. The tax rate applicable for the company is 50%. Calculate the weighted average cost of capital using market value proportions.

(g) Mozilla Ltd. belongs to a risk class for which the appropriate capitalisation rate is 10%. It currently has outstanding 50,000 shares selling at ₹ 100 each. The firm is contemplating the declaration of dividend of ₹ 6 per share at the end of the current financial year. The company expects to have a net income of ₹ 5,00,000 and has a proposal for making new investments of ₹ 10,00,000. Show that under MM hypothesis, the payment of dividend does not affect the value of the firm.

(h) Explain the theories of capital structure.

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47 (4) FIMN 4·3

2019

FINANCIAL MANAGEMENT

Paper : 4·3

Full Marks : 80

Time : Three hours

The figures in the margin indicate full marks for the questions.

1. Fill in the blanks with the most appropriate words : 5×1=5

(a) Financial decisions are mainly taken in respect of investment, finance and dividend decisions.

(b) capital gearing refers to the relation between equity capital and long-term debt.

Contd.

D

(c) A company is said to be over-capitalised if ______ value exceeds the real value of equity shares of the company.

(d) Under dividend yield method, cost of equity share capital = ______ . $\frac{D}{NP}$ or $\frac{D}{MP}$

(e) Dividends payout ratio =

$$\frac{\text{Dividend Paid}}{?}$$ earnings per share (D)

2. State whether the following statements are True *or* False : 5×1=5

(a) Use of debt capital to increase income is known as financial operating leverage.

(b) Retained earnings do not involve any cost.

(c) If a company pays high dividend out of its earnings, it may result in dilution of power/control and earnings for the existing shareholders.

(d) The earning per share (EPS) is affected by the degree of financial leverage.

(e) Cost of capital is the maximum rate of return expected by its investors.

3. Answer/Solve the following : 5×2=10

(a) State *any two* features of debentures.

(b) State *any two* differences between financial leverage and operating leverage.

(c) What is overall cost of capital?

(d) State *two* assumptions of MM approach to dividend decision.

(e) Current assets are twice the current liabilities. You are required to calculate current assets if working capital is ₹ 40,000.

4. Answer/Solve the following : ***(any four)***

4×5=20

(a) What are the objectives of financial management? Explain.

(b) Explain *any five* types of debentures.

(c) What is the procedure for calculation of cost of equity share capital?

(d) State *any five* investor protection measures undertaken by SBI.

(e) Explain *any five* reasons that necessitate change in capitalisation.

(f) Explain *any two* theories of capital structure.

5. Answer/Solve the following : ***(any five)***

5×8=40

(a) Elaborate on the determinants of capital structure and the benefits of a balanced capital structure. 5+3

(b) What is more harmful under-capitalisation or over-capitalisation? Discuss. What are the remedies of over-capitalisation? 5+3

(c) (a) Explain the interpretation of operating leverage with examples.

(b) A company issues 10,000, 10% preference shares at ₹ 100 each. Cost of issue is ₹ 2 per share. Calculate cost of preference capital if these shares are issued at (i) par (ii) at a premium of 10%. 4+2+2

(d) Do you feel that Walter's approach to dividend decision is the best of all? Why? Also, write a short note on price earnings ratio. 5+3

(e) What is the significance of cost of capital? What are major problems concerning determination of cost of capital? 3+5

(f) Explain : 4+4

(i) Net Income Approach and

(ii) Net Operating Income Approach for the determination of value of a firm.

(g) Define finance function. Discuss some of the most important financial problems that face a decision-maker today.

(h) ABC Ltd. has a capital of ₹ 10 lakhs in equity shares of ₹ 100 each. The shares are currently quoted at par. The company proposes declaration of a dividend of ₹ 10 per share at the end of the current financial year. The capitalisation rate for the risk class to which the company belongs is 12%. What will be the market price of the share at the end of the year if —

(i) a dividend is declared?

(ii) a dividend is not declared?

Assuming that the company pays the dividend and has net profits of ₹ 5,00,000 and makes new investments of 10 lakhs during the period, how many new shares must be issued? Use the MM Model. illustration

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Total number of printed pages–6

47(4) MNSR 4·4

2013

FINANCIAL MANAGEMENT

Paper : 4·4

Full Marks : 80

Time : Three hours

The figures in the margin indicate full marks for the questions.

1. Fill in the blanks by choosing the correct alternative : 10×1=10

   (a) EPS stands for

   (Equity per share / Earnings per share)

   (b) Degree of financial leverage = ________

   $\left(\frac{\text{EBIT}}{\text{EBT}} \Big/ \frac{\text{EPS}}{\text{EBIT}}\right)$

   (c) When dividend is declared it becomes an/a ________ of the company.

   (obligation / reputation)

Contd.

(d) Right shares are issued to ________. (preference shareholders / equity shareholders)

(e) According to MM Theory, the total value of the firm is ________. (Static / non-static)

(f) SEBI stands for ________. (Security Employment Board of India / Securities and Exchange Board of India)

(g) The job of a financial manager covers raising and utilisation of ________. (funds / debt)

(h) When the book value of a company is less than the real value, the company is said to be ________.

(over capitalised / undercapitalised)

(i) The effective cost of debentures is ________ as compared to shares. (more/less)

(j) Cost of retained earnings is the ________ cost of dividend foregone by the shareholders. (financial / opportunity)

2. *Answer the following :* 5×2=10

(a) What do you mean by sweat equity shares ?

(b) Mention *any two* causes of under-capitalisation.

(c) What do you mean by operating leverage ?

(d) What do you mean by pre-emptive right ?

(e) What do you mean by capital structure ?

3. *Answer the following : **(any five)*** 5×4=20

(a) What are the objectives of financial management ? Explain.

(b) What is over-capitalisation ? What are the remedies of over-capitalisation ?

(c) Distinguish between equity shares and debentures.

(d) Explain *any five* factors affecting dividend decision.

(e) How is the cost of debt calculated ?

(f) (i) A company issues ₹ 10,00,000, 10% redeemable debentures at a discount of 5%. The costs of floatation amount to ₹ 30,000. The debentures are redeemable after 5 years. Calculate after tax cost of debt assuming a tax rate of 50%.

(ii) The shares of a company are selling at ₹ 40 per share and it had paid a dividend of ₹ 4 per share last year. The investor's market expects a growth rate of 5% per year. compute the company's cost of equity capital.

Book
7·17

(g) What are the components of cost of capital ?

4. *Answer the following :* ***(any five)***

(a) Explain the net income approach of determining the capital structure. Also highlight the role of SEBI in issue of capital. 4+4

(b) Explain *any five* factors that determine the capital structure of a company. What are the limitations of trading on equity ? 5+3

(c) What is the argument given in MM approach of dividend decision ? What do you mean by price-earnings ratio ? 5+3

(d) What is finance function ? Elaborately discuss the nature and scope of financial management. 2+3+3

(e) Why is preference share known as hybrid form of security ? Critically examine the advantages and disadvantages of raising funds by issuing equity shares. 2+3+3

(f) What are the different types of debentures ? Also, discuss the earnings theory of capitalisation. 5+3

(g) The following information is available in respect of a firm :

Capitalisation rate = 10%

Earnings per share = ₹ 50

Assumed rate of return on investment is

(i) 12% (ii) 8% (iii) 10%

Show the impact of dividend policy on market price of shares by applying Walter's formula when dividend pay-out ratio is 60% and 100%. 5+3

(h) A company has equity share capital of ₹ 5,00,000 divided into shares of ₹ 100 each. It wishes to raise further ₹ 3,00,000 for expansion. The following options are available :

(i) all common stock

(ii) ₹ 1,00,000 in common stock and ₹ 2,00,000 in 10% debentures.

(iii) all debt at 10% p.a.

(iv) ₹ 1,00,000 in common stock and ₹ 2,00,000 in 8% preference shares.

The company's existing earnings before interest and tax are ₹ 1,50,000. The corporate tax rate is 50%. Determine EPS of each plan and comment on the implications of financial leverage. 8

500