

# **Paper : M.C. 203 : FINANCIAL MANAGEMENT AND POLICY**

(Same for USOL Candidates)

**Time Allowed : Three Hours**

**Maximum Marks : 80**

**Note :** Attempt any five questions in all, selecting at least one question from each unit. All questions carry equal marks.

## **UNIT-I**

1. "Finance is the life blood of industry". Elucidate this statement with & example. 16
2. What are the discounting and compounding principles of finding time value of money ? 16
3. Discuss the sources of long-term capital available to the companies. In this context, discuss the merits and demerits of preference share as source of long term capital. 8,8

## **UNIT-II**

4. Describe the various methods of evaluating capital investment proposals. 16
5. What is meant by weighted average cost of capital ? How is the cost of debt capital computed ? 8,8
6. Explain rationing in capital budgeting with the help of suitable examples. 16

### UNIT-III

50. A firm has sales of Rs. 10,00,000, variable cost of Rs. 7,00,000 and fixed cost of Rs. 2,00,000 and debt of Rs. 5,00,000 at 10% rate of interest. What are the operating, financial and combined leverages? If the firm wants to double up its EBIT, how much of a rise in sales would be needed on a percentage basis? 16
51. Explain the features and limitations of two approaches to the determination of a firm's capital structure:  
(i) EBIT-EPS approach  
(ii) Cash flow approach. 8,8

### UNIT-IV

52. From the following information supplied to you, ascertain whether the firm is following an optimal dividend policy as per Walter model? Total earning Rs. 1,00,000, number of equity shares (of Rs. 100 each) 1,000, dividend paid Rs. 75,000, Price/Earning Ratio 12.5. The firm is expected to maintain its rate of return on fresh investment. Also find out, what should be the P/E Ratio at which the dividend policy will have no effect on the value of the share? Will your decision change if the P/E Ratio is 8 instead of 12.5? 16
53. What are the techniques of control of receivables? Explain the "ageing schedule". 8,8