 MGT/S-3-F/IV/13

2013

Time : 3 hours

Full Marks : 80

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

The questions are of equal value.

Answer any ***four*** *questions in which Q. No. 1 is compulsory.*

1. Choose the correct option from the following :

   (i) A highly leveraged firm is _________ risky than its peers.

   (a) Less

   (b) More

   (c) The same

   (d) None of them

(ii) If interest expenses for a firm rise, we know that firm has taken on more :

(a) Financial leverage

(b) Operating leverage

(c) Fixed Assets

(d) None of them

(iii) The cost of issuing new stock is called :

(a) The cost of equity

(b) Flotation cost

(c) Marginal cost of capital

(d) None of them

(iv) The largest provider of short-term credit for business is :

(a) Banks

(b) Suppliers of firm's

(c) Commercial paper

(d) None of them

(v) The principal value of a bond is called :

(a) The coupon rate

(b) The par value

(c) The matuirity value

(d) None of them

(vi) The number of days until the firm is past due to a supplier is called :

(a) Discount period

(b) Term to credit

(c) Payment period

(d) None of them

(vii) In calculating the cost of individual components of a firm's financing the corporate tax rate is important to which of the following component cost formulae ?

(a) Common stock

(b) Debt

(c) Preferred stock

(d) None of them

(viii) An advantage of debt financing is :

(a) Interest payments are tax deductible

(b) The use of debt, up to point, lowers the firm's cost of capital

(c) Does not dilute owner's earnings

(d) All of the above

(ix) A firm's cost of capital is the :

(a) Cost of borrowing money

(b) Cost of issuing stock

(c) Cost of bonds

(d) Overall cost of financial to the firm

(x) The cost of each component of a firm's capital structure multiplied by its weight in the capital structure is called :

(a) Marginal cost of capital

(b) The cost of Debt

(c) Weighted cost of capital

(d) None of them

2. Explain the Modigliani-Miller approach of capital structure.

3. Explain the facilities provided by Banks for short term finance.

4. What is leverage ? Explain the types of leverages.

5. What are the factors that determine the Dividend Policy of a company ?

6. Given (i) Earning per share ₹ 20, (ii) Capitalisation rate 15% and (iii) Internal rate of return from retained earnings 18%. The company is considering a pay-out of 25%, 60% and 75%. Which of these would maximise the wealth of shareholders ?

7. Calculate operating leverage, financial leverage and combined leverage from the data given below :

	₹
Sales 1,00,000 units @ ₹ 2 per unit	2,00,000
Variable costs ₹ 0.70 per unit	—
Fixed costs	1,00,000
Interest charge on Debt Capital	3,668