

Dr. Babasaheb Ambedkar Open University
Term End Examination January – 2026

Course : Diploma Course Subject Code : DFM-03 Subject Name : Policy matters in Financial Management	Date : 02/03/2026 Time : 11:30am to 01:45pm Duration : 02.15 Hours Max. Marks : 70
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- Q-1** Asia Ltd. Issued 10 % debentures of Rs. 100 each at per. The debentures are to be repaid after 10 years. These debentures are floated at their face value, but the cost of floatation comes to a 4 Per cent. The tax rate is 50 %.Calculate the cost of debt. **14**

OR

Sharp Ltd issued 10,000 14% Irredeemable debentures of Rs. 100. The company paid following floatation charges: underwriting commission 1.5 % brokerage 0.5% and other charges Rs. 10,000. If the tax rate is 50 %. Calculate the cost of debentures under the following circumstances:

- (1) If they are issued at par
- (2) If they are issued at a discount of 5 %
- (3) If they are issue at a premium of 15 %

- Q-2** You are required to calculate the financial leverage in each of the three cases and interpret it. **14**

	P	Q	R
Equity capital (shares of Rs.10 each)	4500	2200	5500
Debt	4000	5500	2200
Earning before Interest and Taxes	600	700	800

Interest can be assumed at the rate of 10 % per annum in all the three cases. Ignore taxes.

OR

Explain various types of structural leverages?

- Q-3** According to traditional approach, the market value of company R and S are as under: **14**

	R	S
Net operating income (EBIT)	Rs.60,000	Rs.60,000
Cost of debits	0	20,000
Net income available to equity shareholders	60,000	40,000
Cost of equity capital (KC)	0.10	0.11
Market value of equity capital (S)	5,50,000	3,50,000
Market value of debts (D)	0	2,00,000
Total value of the company (V)	5,50,000	5,50,000
Average cost of capital (K)	10.9	10.9

According to M-M approach, calculate the cost of capital and the value of company R and S.

assume that (1) there are no taxes and (2) the rate of equilibrium value of 12.5 %.

OR

R Ltd. and S Ltd. Both companies belong to the homogenous risk group. Both companies are identical in all respects except that A is a levered company, while B is an unlevered company. The capital structure of the levered company A includes 10 % debentures of Rs 5,00,000. The total assets of both the companies are worth Rs 12,00,000: and both earn 15% return before taxes and interest on their assets.

Assuming that capital market is perfect, investors behave rationally, tax rate is 50 per cent and rate of equity capitalization is 15 %, compute the following.

(1) The value of company R and S on the basis of the Net Income Approach (2) The value of both these companies on the basis of the Net Operating Income approach.

Q-4 What factors should be considered While determining dividend policy ? **14**

OR

Explain walter's share valuation model with its assumptions?

Q-5 Write Short Notes (Any two) **14**

1. The constant pay out ratio as dividend policy.
2. Weighted average cost of capital theory in capital structure studies.
3. The concept of Indifference point in leverage analysis
4. Dividend growth method of calculating cost of capital.
5. Price Earning method of of calculating cost of equity.

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