

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

Course	: Diploma Course	Date	: 08/07/2026
Subject Code	: DFM-03	Time	: 11:30am to 01:45pm
Subject Name	: Policy matters in Financial Management	Duration	: 02.15 Hours
		Max. Marks	: 70

Q-1 Explain Weighted Average Cost of Capital (WACC) in detail **(14)**

OR

Richards Ltd. issued 10000 12 % Redeemable preference shares of Rs.100 each at a discount of 5%. The cost of shares issue amount to Rs.3000. these shares are to be redeemed at par after 10 years. Find out the cost of capital of preference shares. What would be the cost of capital, if the preference shares are irredeemable?

Q-2 Explain leverage ratios in detail **(14)**

OR

A simplified income Statement of Zodiac Ltd. is given below. Calculate and interpret its degree of operating leverage, financial leverage and degree of combined leverage.

Zodiac Ltd. Income Statement for the year to 31 st March, 2004	
Particulars	Rs.
Sales	10,00,000
Variable cost	7,50,000
Fixed cost	75,000
EBIT	1,75,000
Interest	60,000
Taxes (30%)	34,500
Net Income	80,500

Q-3 Explain Modigliani and Miller theory in capital structure studies **(14)**

OR

Companies B and C are identical in all respects except that company M is unlevered; while capital of company B includes 12% debenture of Rs.4,00,000. If tax rate is 50%, net operating income is Rs.1,20,000 and rate of equity capitalisation is 10 per cent, calculate the following:

Q-4 explain Gordon's Dividend Growth model for share valuation (14)

Explain Walter's share valuation model in detail

Q-5 (A) Write Short notes. (Any Three) (09)

1. Explain types of dividend policy?
2. Explain Net income approach in capital structure studies?
3. Explain the concept of Indifference point in leverage analysis?
4. Explain debt-equity analysis in capital structure?
5. Explain the concept of marginal cost of capital?

(B) Mcqs **(05)**

- What is the full form of 'CAPM' in the context of cost of equity?
A) Capital Asset Pricing Model B) Capital Allocation Payment Method
C) Current Asset Pricing Model D) Capital Asset Payment Model
- Operating leverage arises in a firm due to the presence of:
A) Variable operating costs B) Fixed operating costs
C) Interest payments D) Dividend payments
- What is the primary and ultimate objective of designing an optimal capital structure?
A) Maximize the cost of capital B) Minimize the market price of shares
C) Maximize the wealth of equity shareholders D) Increase fixed operating expenses
- What does the term 'Dividend' literally mean?
A) Divide the profit B) Divide the end C) Double income D) Direct earnings
- Which class of shareholders has a preferential right to receive dividends before equity shareholders?
A) Debenture holders B) Preference shareholders
C) Company Promoters D) Unsecured Creditors
