

**Dr. Babasaheb Ambedkar Open University**  
**Term End Examination June – 2017**

Course	: DFM	Date	: 28-Jun-17
Subject Code	: DFM-03	Time	: 3:00 TO 6:00
Subject Name	: Policy matters in Financial Management	Duration	: 03 Hours
		Max. Marks	: 70

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1. Ram Enterprises 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: (14)

- If they are issued at par
- If they are issued at discount of 5%
- If they are issued at premium of 15%

**OR**

What is cost of capital? Explain Capital Asset pricing Method (CAPM) in detail.

2. What is Leverage? Discuss different types of Leverage Ratios. (14)

**OR**

Calculate the Operating Leverage of XYZ Limited from the following data:

Selling Price – Rs.11 per unit  
Variable Cost – Rs.5 per unit  
Fixed Operating cost – Rs. 17,000  
Sales (Units) – 12,000

Moreover if the sales is increased by 20%, what changes it will take in degree of operating Leverage?

3. Define Capital Structure. What are factors influencing Capital Structure decision of Company? (14)

**OR**

Explain Modigliani and Miller Theory (MM Theory) of Capital Structure in detail.

4. Explain Walter's Valuation Model in detail. Calculate the market price of kazi Limited's share under Walter's Model. (14)

Earning per share – Rs.4  
Dividend per share – Rs. 2.50  
Cost of capital – 16%  
Internal Rate of return – 18%

**OR**

What is Dividend? Discuss the types of dividend policy in detail.

5. Write Short note on: (14)
- Bird in Hand Theory
  - WACC
  - EBIT- EPS Analysis
  - NOI Approach of capital structure
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