

**Dr. Babasaheb Ambedkar Open University**  
**Term End Exam August – 2010**

Course Code : DFM-03 Roll No. \_\_\_\_\_  
Subject : Policy Matters in Financial Management  
Date : 03-08-2010 Marks : 70  
Time : 11:00 to 02:00

---

Note : All questions carry equal marks.

Que 1: Write any three (14)

- 1) Dividend yield Method
- 2) Price earning Method
- 3) Capital asset pricing Method
- 4) Cost of Perpetual debt
- 5) Retained of earning
- 6) Gorden's dividend growth Model

Que 2: ABC Ltd. has on its books the following of capital and specific cost of each type of capital (14)

Type of capital	Book value Rs	Market Value Rs	Specific Cost
Debenture	500000	360000	9%
Preference share capital	160000	140000	11%
Equity share capital	800000	1080000	16%
Retained Earning	200000		10%

Determine the weighted average cost of capital using

- 1) Book value weight
- 2) Market value weights

OR

What is weighted average cost of capital? How it is calculated

Que 3: Explain operating leverage, financial leverage and total leverage.(14)

OR

Explain

- 1) Financial Break even and Indifference Analysis
- 2) Trading on Equity

(P.T.O)

Que 4: Calculate the operating leverage of Amit Ltd. from the following data (14)

Selling price Rs 20 per unit

Variable cost Rs 8 per unit

Fixed operating cost Rs.35000

Sales (units) 20000

Moreover if the sales is increased is by 20% what change it will take in DOL.

OR

Que 4: Calculate

1) EBIT

2) EPS

3) Operating, financial and combined leverage

	X	
Selling price per unit	20	30
Variable cost per unit(Rs.)	12	18
Fixed cost (Rs)	20000	30000
Interest(Rs)	10000	15000
Tax rate(%)	50%	50%
Sales (units)	30000	25000
No. of Equity share	10000	10000

Que 5: Write any three (14)

- 1) Debt Equity ratio analysis
- 2) Risk return trade off
- 3) Assumptions of Modigliani and Miller theory
- 4) "Bird in Hand" Theory
- 5) Optimal capital structure
- 6) Assumption in Risk return trade off