I Semester M.Com. (F.A.) Examination, February 2019
(CBCS)
COMMERCE (F & A)
Paper – 1.4 : Managerial Finance

Time : 3 Hours

Max. Marks : 70

SECTION – A

Answer any seven questions. Each question carries two marks. (7×2=14)

1. a) What is capital rationing?
   b) What is optimum capital structure?
   c) What do you mean by stock dividend?
   d) What is profitability index?
   e) What is trading on equity?
   f) What is Economic Order Quantity?
   g) What is the intrinsic value of a call option?
   h) What is cost of capital?
   i) Define futures contract.
   j) What is sensitivity analysis?

SECTION – B

Answer any four questions. Each question carries 5 marks. (4×5=20)

2. Explain the goals of financial management.
3. Explain the operating cycle.
4. Explain “Miller-Orr” model of cash management.
5. What are the merits and demerits of IRR?
6. Calculate the cost of equity from the following data:
   Dividend per share – Rs. 7.50
   Estimated growth rate – 10%
   Market price per share – Rs. 95
   Face value of the share – Rs. 10
   Book value of share – Rs. 45

7. The investments in Projects A and B are Rs. 50 lakh each. The Cash Flow After Tax (CFAT) are as under:

<table>
<thead>
<tr>
<th>Year</th>
<th>Project – A (Rs. lakh)</th>
<th>Project – B (Rs. lakh)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8</td>
<td>25</td>
</tr>
<tr>
<td>2</td>
<td>10</td>
<td>20</td>
</tr>
<tr>
<td>3</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>4</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>25</td>
<td>8</td>
</tr>
</tbody>
</table>

Cost of capital – 18%. Which project should be accept under NPV method?

SECTION – C

Answer any three questions. Each question carries twelve marks.

8. ABC Ltd. wishes to raise additional finance of Rs. 10 lakh for meeting investment plan. It has Rs. 2,10,000 in the form of retained earnings available for investment. The following are the further details.
   Debt/Equity mix (mix) = 30 : 70
   Cost of debt-up to Rs 1,80,000 – 10% before tax
   Cost of debt – upto Rs. 1,80,000 – 16% before tax
   Above Rs. 1,80,000 – 16% before tax
   E.P.S.– Rs. 4, dividend payout – 50% of earnings
   Expected growth rate in dividend – 10%
   Current market price – Rs. 44, tax rate = 50%
Determine:

a) Pattern of raising the additional capital
b) Post tax cost of debt
c) Cost of retained earnings
d) Cost of equity
e) Overall cost of capital.

9. Explain the factors influencing working capital requirement of a manufacturing firm.

10. Explain the determinants of dividend policy.

11. The following data have been furnished by A Ltd. and B Ltd. for the year ended 31-3-2015:

<table>
<thead>
<tr>
<th></th>
<th>A Ltd.</th>
<th>B Ltd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>a) Operating leverage</td>
<td>3 : 1</td>
<td>4 : 1</td>
</tr>
<tr>
<td>b) Financial leverage</td>
<td>2 : 1</td>
<td>3 : 1</td>
</tr>
<tr>
<td>c) Interest charge per annum</td>
<td>Rs. 12 lakh</td>
<td>Rs. 10 lakh</td>
</tr>
<tr>
<td>d) Corporate tax</td>
<td>40%</td>
<td></td>
</tr>
<tr>
<td>e) Variable cost to sales</td>
<td>60%</td>
<td>50%</td>
</tr>
</tbody>
</table>

Prepare income statement for the companies.

12. Explain the sources of long term and short term capital requirement of manufacturing firms.
I Semester M.Com. (FA)/MFA Examination, January/February 2018  
(CBCS)  
Paper – 1.4 : MANAGERIAL FINANCE  

Time : 3 Hours  
Max. Marks : 70  

Instruction: Answer all Sections, PV tables will be supplied on request.  

SECTION – A  
Answer any seven sub-questions. Each sub question carries two marks. (7x2=14)  

1. a) Define wealth maximisation.  
   b) Distinguish between Operating and Financial leverage.  
   c) What is marginal cost of capital?  
   d) State the reasons for adopting stable dividend policy in corporate sector.  
   e) What are the assumptions of Net operating income approach of capital structure?  
   f) What do you mean by Capital Budgeting?  
   g) Distinguish between risk and uncertainty.  
   h) What is gross and networking capital?  
   i) State the approaches of working capital finance.  
   j) What do you mean by value creation?  

SECTION – B  
Answer any four questions. Each question carries five marks. (4x5=20)  

2. Write a note on profit maximisation objective.  
3. “Length of operating cycle is a major determinant of working capital needs of a business firm”. Explain.  
4. Discuss the linkage between financial policy and strategic management.
5. What is indifference point and what are its usefulness?

6. From the following data, determine the amount of debt that should be used by the firm in its capital structure to maximise the value of firm

   a) EBIT – ₹2,00,000

   b) Corporate tax rate 35%

   c) Debt  

      | Kd (before tax) | Ke |
      |-----------------|----|
      | (%)             | (%)|
      | Nil            | Nil| 12.0|
      | ₹1,00,000       | 10 | 12 |
      | ₹2,00,000       | 10.5| 12.5|
      | ₹3,00,000       | 11 | 13 |
      | ₹4,00,000       | 12 | 13.5|
      | ₹5,00,000       | 14 | 15.5|
      | ₹6,00,000       | 17 | 20|

7. A project costs ₹56,000 and is expected to generate CFAT as below:

<table>
<thead>
<tr>
<th>Year</th>
<th>CFAT (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>14,000</td>
</tr>
<tr>
<td>2</td>
<td>16,000</td>
</tr>
<tr>
<td>3</td>
<td>18,000</td>
</tr>
<tr>
<td>4</td>
<td>20,000</td>
</tr>
<tr>
<td>5</td>
<td>25,000</td>
</tr>
</tbody>
</table>

   Calculate IRR.

SECTION – C

Answer any three questions. Each question carries 12 marks. (3x12=36)


9. Elucidate the various sources of long-term finance of a company.
5. What is indifference point and what are its usefulness?

6. From the following data, determine the amount of debt that should be used by the firm in its capital structure to maximise the value of firm

a) EBIT = ₹ 2,00,000

b) Corporate tax rate 35%

c) Debt | Kd (before tax) | Ke (%)
Nil | Nil | 12.0
₹ 1,00,000 | 10 | 12.5
₹ 2,00,000 | 10.5 | 12.5
₹ 3,00,000 | 11 | 13
₹ 4,00,000 | 12 | 13.5
₹ 5,00,000 | 12 | 15.5
₹ 6,00,000 | 17 | 20

7. A project costs ₹ 56,000 and is expected to generate CFAT as below:

<table>
<thead>
<tr>
<th>Year</th>
<th>CFAT (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>14,000</td>
</tr>
<tr>
<td>2</td>
<td>16,000</td>
</tr>
<tr>
<td>3</td>
<td>18,000</td>
</tr>
<tr>
<td>4</td>
<td>20,000</td>
</tr>
<tr>
<td>5</td>
<td>25,000</td>
</tr>
</tbody>
</table>

Calculate IRR.

SECTION – C

Answer any three questions. Each question carries 12 marks. (3x12=36)


9. Elucidate the various sources of long-term finance of a company.
11. A company is considering an investment in a project that requires an initial net investment of ₹ 3,000 with an expected cash flows (CFAT) generated over three years as follows:

<table>
<thead>
<tr>
<th>CFAT (₹)</th>
<th>Probability</th>
<th>CFAT (₹)</th>
<th>Probability</th>
<th>CFAT (₹)</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>800</td>
<td>0.1</td>
<td>800</td>
<td>0.1</td>
<td>800</td>
<td>0.2</td>
</tr>
<tr>
<td>1,000</td>
<td>0.2</td>
<td>1,000</td>
<td>0.3</td>
<td>1,000</td>
<td>0.5</td>
</tr>
<tr>
<td>1,500</td>
<td>0.4</td>
<td>1,500</td>
<td>0.4</td>
<td>1,500</td>
<td>0.2</td>
</tr>
<tr>
<td>2,000</td>
<td>0.3</td>
<td>2,000</td>
<td>0.2</td>
<td>2,000</td>
<td>0.1</td>
</tr>
</tbody>
</table>

a) What is the expected NPV of the project? Assume the risk free rate of interest is 5%.

b) Calculate the standard deviation about the expected value.

c) Find the probability that NPV will be less than zero and greater than zero.

12. A textile company belongs to a risk-class for which the appropriate PE ratio is 10. It currently has 50,000 outstanding shares selling at ₹100 each. The firm is contemplating the declaration of ₹ 8 dividend at the end of the current year which has just started. Given the assumptions of MM, answer the following questions.

a) What will be the price of the share at the end of the years if dividend is not declared and declared?

b) Assuming that the firm pays the dividend, has a net income of ₹5,00,000 and makes new investment of ₹ 10,00,000 during the period, how many new shares must be issued?

c) What will be the value of firm if dividend is declared and dividend is not declared?
1 Semester M.Com. (F&A)/M.F.A. Examination, January 2017  
(CBCS)  
Paper – 1.4: MANAGERIAL FINANCE  

Time: 3 Hours  
Max. Marks: 70  

Instructions: Answer all Sections.  
Present value tables will be supplied on request.  

SECTION – A  

1. Answer any seven sub-questions. Each sub-question carries two marks. (7×2=14)  
   a) How do you compute cost of retained earnings?  
   b) What is technical insolvency?  
   c) Mention two limitations of ARR method.  
   d) What is partly convertible debenture?  
   e) What are Euro issues?  
   f) Mention relevant theories of dividend policy.  
   g) What is cash conversion cycle?  
   h) What is Pareto analysis?  
   i) What do you mean by EFT?  
   j) What do you mean by risk-return trade-off?  

SECTION – B  

Answer any four questions. Each question carries five marks. (4×5=20)  

2. Write a note on financial policy.  
3. Diagrammatically present cash management models.  
4. Bring out the similarities and dissimilarities between NPV and IRR methods.  
5. Explain business risk and financial risk. How do you manage such risks?  

P.T.O.
6. AB Co., raised a term loan of Rs. 2 crores from a commercial bank on a prime lending rate plus 4%. The prime lending rate of the bank is 18%. The company pays income tax at the rate of 40%. Calculate Kd.

7. Sunrise Ltd., produces a product which has a monthly demand of 10,000 units. The product requires a component ‘A’ which is purchased at Rs. 20. For every finished product one unit of component ‘A’ is required. The ordering cost is Rs. 120 per order and the holding cost is 10% per annum. You are required to calculate EOQ.

SECTION - C

Answer any three questions. Each question carries twelve marks. (3x12=36)

8. Critically examine capital structure theories.

9. Risk analysis is an essential feature of investment decision making process. What are the major risk factors and how will you control them?

10. ZX Co. Ltd., is an all equity financed company. The current market price of the share is Rs. 180. It had just paid a dividend of Rs. 15 per share and expected future growth individuals is 12%. Currently it is evaluating a proposal requiring funds of Rs. 80,00,000 with annual inflows of Rs. 40,00,000 for 3 years. Find out the NPV of the proposal if:
   a) It is financed from retained earnings.
   b) It is financed by issuing fresh equity (floatation costs 5%).

11. A company plans to manufacture and sell 400 units of mobile phones per month at a price of Rs. 8,000 each. The ratio of costs to selling price are as follows:

<table>
<thead>
<tr>
<th>% of Selling Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw materials</td>
</tr>
<tr>
<td>Packing materials</td>
</tr>
<tr>
<td>Direct labour</td>
</tr>
<tr>
<td>Direct expense</td>
</tr>
</tbody>
</table>

Fixed overheads are at Rs. 8,64,000 per annum.
The following norms are maintained for inventory management:

- Raw materials: 30 days
- Packing materials: 15 days
- Finished goods: 200 units
- Work in progress: 7 days

Other particulars are given below:

a) Credit sales represent 80% of total sales and the dealers enjoy 30 working days credit. Balance 20% are cash sales.

b) Creditors allow 21 working days credit for payment.

c) Lag in payment of overheads and expenses is 15 working days.

d) Cash requirements to be 12% of net working capital.

e) Working days in a year are taken as 300 for budgeting purpose.

Prepare a statement showing working capital requirements.

12. The share capital of EPZ Co. Ltd., is Rs. 80,00,000 with the shares of face value of Rs. 10. The company has debt capital of Rs. 48,00,000 at 10% rate of interest. The sales of the firm are 3,00,000 units per annum at a selling price of Rs. 50 per unit and the variable cost is Rs. 30 per unit. The fixed cost amounts to Rs. 16,00,000. The company pays tax at 35%. If the sales increase by 20%. Calculate:

i) Percentage increase in EPS

ii) Degree of operating leverage at two levels of operation

iii) Degree of financial leverage at two levels of operation

iv) Combined leverage and comment on the results.
Instructions: Attempt all Sections. 
Present value tables will be supplied on request.

SECTION – A
Answer any ten of the following in about 3-4 lines each. Each sub-question carries 2 marks: (10x2=20)

1. a) What do you mean by GDR’s and ADR’s?
   b) Illustrate Tax Shield.
   c) How do you calculate the cost of retained earnings?
   d) Explain the concept of IRR.
   e) Illustrate conservative working capital policy.
   f) What is meant by ‘home made leverage’?
   g) How do you maximise shareholders wealth?
   h) What is Optimal Capital Structure?
   i) What are the uses of Commercial Paper?
   j) Why is cost of capital important?
   k) Illustrate combined leverage.
   l) What do you mean by risk-return trade-off?

SECTION – B
Answer any three questions. Each question carries 5 marks: (3x5=15)

2. Illustrate NOI approach of capital structure theory.

3. What are the differences between NPV and IRR methods?

4. How is shareholder value measured?
5. Explain how corporate social responsibility is becoming an important goal of financial management.

6. Calculate the cost of equity from the following information:
   - Dividend per share Rs. 7.50
   - Estimated rate of growth 10%
   - Market price per share Rs. 95
   - Face Value per share Rs. 10
   - Book Value per share Rs. 45.

SECTION – C

Answer any two of the following. Each question carries 15 marks: \(2 \times 15 = 30\)

7. Discuss briefly different models of dividend policy.

8. What is meant by overall cost of capital? Why is it important? Critically examine the following statements in the context of computing overall cost of capital:
   a) “Book Value Weights are operationally more convenient”.
   b) “Market Value Weights are practically rational”.

9. The credit terms of XYZ Co., at present are ‘1/10 net 30’. Its sales are Rs. 50,00,000, its average collection period is 25 days, its contribution margin is 15 percent and its cost of funds is 20%. The proportion of funds on which customers currently take discount is 0.4. The company is currently thinking of changing its discount terms to ‘2/10 net 30’. This is expected to increase sales to Rs. 80,00,000, reduce the average collection period to 15 days and increase the proportion of discount sales to 0.8.

   Bad debt losses are at present 3% of sales. It is anticipated that additional sales would generate additional bad debts @ 5%.

   Advise the company whether it should relax the discount terms? Assume 1 year = 360 days.
10. A company can make either of two investments using NPV and profitability index methods at the beginning of the year 1. The forecast particulars are given below:

<table>
<thead>
<tr>
<th>Proposal 'A'</th>
<th>Proposal 'B'</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial outlay (Rs.)</td>
<td>20,00,000</td>
</tr>
<tr>
<td>Estimated life (years)</td>
<td>4</td>
</tr>
<tr>
<td>Net cash flow (Rs.) :</td>
<td></td>
</tr>
<tr>
<td>End of year</td>
<td>1</td>
</tr>
<tr>
<td>1</td>
<td>5,50,000</td>
</tr>
<tr>
<td>2</td>
<td>9,00,000</td>
</tr>
</tbody>
</table>

It is also estimated that each of the proposals will require an additional working capital (to be invested additionally) of Rs. 2,00,000 which will be received back in full after the expiry of each project life. The company can arrange funds at 8 percent. The P.V. of Re. 1 to be received at the end of each year at 8 percent is given below:

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
</tr>
</thead>
<tbody>
<tr>
<td>P.V. factor</td>
<td>0.93</td>
<td>0.86</td>
<td>0.79</td>
<td>0.74</td>
<td>0.68</td>
</tr>
</tbody>
</table>

Comment on the profitability of each of the above proposals.
11. **Case Study: Compulsory** (1×15=15)

Calculate operating leverage and financial leverage under situations A, B and C and Financial Plan 1, 2 and 3 respectively from the following information relating to the operations and capital structure of ABC Co. Also find out the combinations of operating and financial leverages which gives the highest value and the least value:

- Installed capacity: 1200 units
- Actual production and sales: 800 units
- Selling price per unit: Rs. 15
- Variable cost per unit: Rs. 10
- Fixed cost:
  - Situation – A: Rs. 1,000
  - Situation – B: Rs. 2,000
  - Situation – C: Rs. 3,000

**Capital structure:**

<table>
<thead>
<tr>
<th>Financial Plan</th>
<th>Equity</th>
<th>Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rs. 5,000</td>
<td>Rs. 5,000</td>
</tr>
<tr>
<td>2</td>
<td>Rs. 7,500</td>
<td>Rs. 2,500</td>
</tr>
<tr>
<td>3</td>
<td>Rs. 2,500</td>
<td>Rs. 7,500</td>
</tr>
</tbody>
</table>

(Cost of debt 12%).

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(Please note: The above information is for illustration purposes only. The actual calculations may vary. Please refer to the specific financial statements and records of ABC Co. for accurate financial data.)
I Semester M.F.A. Examination, January 2015
(CBCS)
Finance and Accounting
Paper – 1.4 : MANAGERIAL FINANCE

Time : 3 Hours
Max. Marks : 70

Instructions : Answer all Sections.

SECTION – A

(7x2=14)

1. Answer any seven sub questions. Each sub-question carries 2 marks.
   a) What is the importance of time value of money?
   b) What do you mean by stock dividend?
   c) How do you compute the cost of retained earnings?
   d) What do you mean by home made leverage?
   e) What is technical insolvency?
   f) Give the formula of profitability index.
   g) What do you mean by optimum capital structure?
   h) What are factoring services?
   i) How do you enhance shareholders value?
   j) What do you mean by clientele effects?

SECTION – B

(4x5=20)

Answer any four questions. Each question carries five marks.

2. Explain the concept of 'operating cycle'.

3. Illustrate working capital policy of a company of your choice.

P.T.O.
4. Write a note on multi-period probabilistic analysis.

5. How do you measure shareholder value? Give an example.


7. Present Miller-orr model of cash management.

**SECTION – C**

Answer any three questions. Each question carries 12 marks.

8. Explain different theories of capital structure.

9. What are the different sources of working capital? Explain each one of them in detail.

10. Describe the importance of capital budgeting in decision making. Also explain different techniques of investment appraisal.

11. Balance sheet XYZ Ltd., as on 31-3-2012 was as follows.

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Capital (Rs. 10 Per share)</td>
<td>Net Fixed Assets 1,50,000</td>
</tr>
<tr>
<td>10% debentures 80,000</td>
<td>Current assets 50,000</td>
</tr>
<tr>
<td>Retained Earnings 20,000</td>
<td></td>
</tr>
<tr>
<td>Current liabilities 40,000</td>
<td></td>
</tr>
<tr>
<td>2,00,000</td>
<td>2,00,000</td>
</tr>
</tbody>
</table>

The Company’s total asset turnover ratio is 3. Its fixed operating costs are Rs. 1,00,000 and its variable operating costs ratio is 40% the income tax rate is 50%.

i) Calculate for the company all three types of leverages

ii) Determine the likely level of EBIT if EPS is Rs. 5.
5. Illustrate with a diagram the working capital policy of a firm.

6. Calculate the degree of operating and financial leverage from the following data:
   - Sales 100,000 units @ Rs. 2 per unit
   - Variable cost per unit @ Re 0.70
   - Fixed cost
   - Interest charges
   - Rs. 1,00,000
   - Rs. 3,660

SECTION - C

Answer any two of the following. Each question carries fifteen marks. (2×15=30)

7. "The financing of current assets is governed by the financing policy of the firm". Briefly discuss the various sources of current asset financing.

8. Briefly describe different capital structure theories.

9. Beta Co. Ltd., is considering the purchase of a new machine. Two alternative machines X and Y have been suggested, each costing Rs. 40,00,000. Earnings after taxation are expected to be as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Flow (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Machine X</td>
</tr>
<tr>
<td>1</td>
<td>4,00,000</td>
</tr>
<tr>
<td>2</td>
<td>12,00,000</td>
</tr>
<tr>
<td>3</td>
<td>16,00,000</td>
</tr>
<tr>
<td>4</td>
<td>24,00,000</td>
</tr>
<tr>
<td>5</td>
<td>16,00,000</td>
</tr>
</tbody>
</table>

The company has a target return on capital of 10% and on this basis, you are required to compare the profitability of the machines and state which alternative you consider financially preferable.

10. State Generators Ltd., wishes to raise additional finance of Rs. 10 lakh for meeting its investment plans. It has Rs. 2,10,000 in the form of retained earnings available for investment purposes. The following are further details:
   1) Debt/Equity mix
      - 30 : 70
   2) Cost of debt upto Rs. 1,80,000
      - 10% (before tax)
   3) Cost of debt beyond Rs. 1,80,000
      - 16% (before tax)
3) EPs Rs. 4
4) Dividend payout 50% of earnings
5) Expected growth rate in dividend 10%
6) Current market price of share Rs. 44
7) Tax Rate 50%

You are required to:

a) Determine the pattern for raising additional finance.
b) Determine the post-tax average cost of additional debt.
c) Determine the cost of retained earnings and cost of equity.
d) Compute weighted average cost of capital.

SECTION - D

Compulsory: (1\times15=15)

11. The following particulars relate to ABC Ltd. at the end of 2012:

i) Rs. 5,00,000 equity shares of Rs. 10 each. Present dividend per share is Rs. 15; Market price Rs. 100 per share, growth rate in dividend 5 percent

ii) Retained earnings - Rs. 2,00,000

iii) 8% Rs. 5,00,000 preference shares of Rs. 50 each issued at a discount of 5 percent.

iv) Debentures of Rs. 1000 each repayable at par in 2020 were issued as follows:
   Type A: 200 debentures of 13 percent issued at a discount of 10 percent
   Type B: 100 debentures of 13.5 percent issued at a premium of 10 percent.

v) 11 percent term-loan of Rs. 5,00,000. The company received the entire proceeds of loan.

Assuming that ABC Ltd. is in a 50% tax bracket and that it uses book value weights. Calculate the overall cost of capital.