PG – 744

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. **(7×2=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. **(4×5=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.

P.T.O.

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

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 :

Year	**CFAT** (₹)
1	14,000
2	16,000
3	18,000
4	20,000
5	25,000

   Calculate IRR.

SECTION – C

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

8. Critically examine M. M. Theory of capital structure.

9. Elucidate the various sources of long-term finance of a company.

10. The XYZ Company plans to expand assets by 50%. To finance the expansion, it is choosing between a straight 6% debt issue and equity issue. Its current Balance Sheet and income statements are shown below ;

Balance Sheet

	₹		₹
6% Debt	4,00,000	Total Assets	20,00,000
Equity shares (₹ 10 each)	10,00,000		
Earned Surplus	6,00,000		
	20,00,000		**20,00,000**

Income Statement

Sales	60,00,000
Total Cost (excluding interest)	53,80,000
EBIT	6,20,000
Interest on debt	20,000
EBT	6,00,000
Tax	2,10,000
EAT	3,90,000

If the Company Finances the proposed expansion with debt the rate of incremental debt will be 6% and the P/E ratio will be 10. If the expansion is financed by equity, the new shares can be sold at ₹ 33.33 and P/E ratio will be 12

a) Assuming EBIT is 10% on sales, calculate EPS as assumed sales of ₹ 20 lakh, ₹ 40 lakh, ₹ 80 lakh and ₹ 100 lakh under alternative forms of financing the expansion programme.

b) Using P/E ratio indicated, calculate Market value at equity for each level of sales for both debt and equity financing.

c) Advise which form of financing should be employed if company seeks to maximise MPS.

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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 ;

CFAT (₹)	Probability	CFAT (₹)	Probability	CFAT (₹)	Probability
800	0.1	800	0.1	800	0.2
1,000	0.2	1,000	0.3	1,000	0.5
1,500	0.4	1,500	0.4	1,500	0.2
2,000	0.3	2,000	0.2	2,000	0.1

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

b) Calculated 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 50000 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 ?
