



PJ – 541

I Semester M.Com. (FA) Examination, January/February 2019
(CBCS)

Paper – 1.4 : MANAGERIAL FINANCE

Time : 3 Hours

Max. Marks : 70

Instruction : Answer all Sections.

SECTION – A

1. Answer any 7 sub-questions. Each sub-question carries 2 marks : (7×2=14)

- a) What is a warrant ?
- b) Name the different dividend decision theories.
- c) Name two sources by which working capital can be financed.
- d) What is marginal cost of capital ?
- e) Define capital budgeting.
- f) What is dividend policy ?
- g) Give the meaning of IRR.
- h) What is finance function ?
- i) What is discounted payback ?
- j) What is EBITDA ?

SECTION – B

Answer any 4 questions out of 6 questions. Each question carries 5 marks : (4×5=20)

2. Define options. Differentiate between options and warrants.
3. What is financial leverage ? What are the measures of financial leverage ?

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4. What are the factors to be considered while planning capital structure ?
5. Distinguish between profit maximisation and wealth maximisation.
6. The closing price of a share last year was Rs. 50. The dividend per share was Rs. 5 during the year. The current year closing price is Rs. 150. Calculate the percentage return on the share, showing the dividend yield and the capital gain rate.
7. The Servex Company has the following capital structure on 30 June 2014 :

	(Rs '000)
Ordinary shares (200,000 shares)	4,000
10% Preference shares	1,000
14% Debentures	3,000
	8,000

The share of the company sells for Rs. 20. It is expected that company will pay next year a dividend of Rs. 2 per share, which will grow at 7 percent forever. Assume a 50 percent tax rate.

You are required to :

- a) Compute a weighted average cost of capital based on the existing capital structure.
- b) Compute the new weighted average cost of capital if the company raises an additional Rs. 20,00,000 debt by issuing 15 percent debenture. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged, but the price of share will fall to Rs. 15 per share.
- c) Compute the cost of capital if in (b) above if the growth rate increases to 10 percent.

SECTION - C

Note : Answer any 3 questions. Each question carries 12 marks : (3×12=36)

8. Assume that you have been approached by a company to create corporate financial policy. How do you create corporate financial policy ?
9. Discuss the factors to be considered while managing working capital.



10. Consider the following projects :

Cash Flows (Rs. in lakhs)					
Projects	C ₀	C ₁	C ₂	C ₃	C ₄
A	- 1,000	+ 600	+ 200	+ 200	+ 1,000
B	- 1,000	+ 200	+ 200	+ 600	+ 1,000
C	- 300	+ 100	+ 100	+ 100	+ 600
D	- 300	0	0	+ 300	+ 600

- a) Calculate the payback period for each project.
- b) If the standard payback period is 2 years, which project will you select ? Will your answer be different if the standard payback is 3 years ?
- c) If the cost of capital is 10 percent, compute the discounted payback for each project ? Which projects will you recommend if the standard payback is :
 - i) 2 years ;
 - ii) 3 years ?
- d) Compute the NPV of each project assuming cost of capital @ 10%. Which projects will you recommend ?

11. An engineering company is considering its working capital investment for the next year. Estimated fixed assets and current liabilities for the next year are respectively Rs. 2.60 crore and Rs. 2.34 crore. Sales and profit before interest and taxes (PBIT) depend on current assets investment – particularly inventories and book debts. The company is examining the following alternative working capital policies.

Working Capital Policy	Investment in Current Assets (Rs. in crore)	Estimated Sales (Rs. in crore)	EBIT (Rs. in crore)
Conservative	4.50	12.30	1.23
Moderate	3.90	11.50	1.15
Aggressive	2.60	10.00	1.00

You are required to calculate the following for each policy :

- a) Rate of return on total assets,
- b) Net working capital position



- c) Current ratio and
 - d) Current asset to fixed asset ratio. Also discuss the return-risk trade offs of the three policies.
12. A company is considering to raise Rs. 2,00,000 to finance modernization of its plant. The following three financing alternatives are feasible :
- i) The company may issue 20,000 shares at Rs. 10 per share
 - ii) The company may issue 10,000 shares at Rs. 10 per share and 1,000 debentures of Rs. 100 denomination bearing a 14 percent rate of interest.
 - iii) The company may issue 5,000 shares at Rs. 10 per share and 1,500 debentures of Rs. 100 denominations bearing a 14 percent rate of interest.

If the Company's profits before interest are (a) Rs. 5,000, (b) Rs. 12,000, (c) 25,000, what are the respective earnings per share, rate of return on total capital and rates of return on total equity capital, for each of the three alternatives ? Which alternative would you recommend and why ? If the corporate tax rate is 35 percent, what are your answers to the above questions ? How do you explain the difference in your answers ?
