



I Semester M.Com. (FA) Examination, August/September 2021
(CBCS Scheme)

Paper – 1.4 : MANAGERIAL FINANCE

Time : 3 Hours

Max. Marks : 70

Instruction : Answer *all* Sections.

SECTION – A

1. Answer **any seven** of the **ten** sub-questions. **Each** sub-question carries **two** marks. **(7×2=14)**
- What is a warrant ?
 - What is a Euro issue ?
 - Define leverage.
 - Define marginal cost of capital.
 - Define bird-in-the hand approach.
 - What is sensitivity analysis ?
 - What is discounted cash flow ?
 - What do you mean by time value of money ?
 - What is net working capital ?
 - What is wealth ?

SECTION – B

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

- What are the different types of leverage ?
- What is signaling theory and what is its importance in financing decisions ?
- How are the ownership securities different from creditorship securities ?
- What is the role of banks in working capital financing in India ?
- A company is evaluating two mutually exclusive projects. Project X will cost Rs. 10,000 now and will generate cash flows of Rs. 5,000 each year over its life of four years. Project Y will cost Rs. 2,500 and will generate cash flows of Rs. 3,000 each year over life of three years. Which project would you select assuming a risk-free cost of capital of 10 per cent ?



7. Firms A and B are similar expect that A is unlevered, while B has Rs. 2,00,000 of 5 per cent debentures outstanding. Assume that the tax rate is 40 per cent; NOI is Rs. 40,000 and the cost of equity is 10 per cent. (i) Calculate the value of the firms, if the M-M assumptions are met. (ii) Suppose $V_B = \text{Rs. } 3,60,000$. According to M-M, do these represent equilibrium values ? How will equilibrium be set ? Explain.

SECTION – C

Answer **any three** questions of **five** questions. **Each** question carries **12** marks.

(3×12=36)

8. You have been approached by a company to design capital structure and sources of capital for the next 25 years of operations. How would you design the capital structure and what sources of capital would you consider and why ?
9. Discuss the factors to be considered while designing corporate dividend policies in India.
10. X Ltd. has current annual sales of Rs. 60 crore and an average collection period of 30 days. The company is considering of liberalizing its credit policy. If the collection period is extended, sales and bad debt are expected to increase in the following way :

Credit Policy	Increase in Collection Period	Increase in Sales Rs (crore)	Per cent Bad Debt Losses
I	15 days	4.0	1.5
II	30 days	4.5	1.7
III	45 days	5.3	2.0
IV	60 days	6.5	2.5

The Firm sells its product for Rs. 10 per unit. Average cost at current level of sales is 90 per cent for sales and variable cost is 80 per cent of sales. If the current bad debt loss is 1.5 per cent of sales and the required return is 18 per cent, which credit policy should be pursued ? (Assume a 360-day year). State your assumptions.



11. Vikas Engineering Ltd. has current dividend per share of Rs. 5, which has been growing at an annual rate of 5 per cent. The company is expecting significant technical improvement and cost reduction in its operations, which would increase growth rate to 10 per cent. Vikas capitalisation rate is 15 per cent. You are required to calculate (a) the value of the share assuming the current growth rate; and (b) the value of the share if the company achieves technical improvement and cost reduction. Does the price calculated in (b) make a logical sense ? Why ?
12. The Keshari Engineering Ltd. has the following capital structure, considered to be optimum, on 31 June 2003.

	Rs. in million
14% Debt	93.75
10% Preference	31.25
Ordinary equity	375.00
Total	500.00

The company has 15 million shares outstanding. The share is selling for Rs. 25 per share and the expected dividend per share is Rs. 1.50. Which is expected to grow at 10 per cent ? The company is contemplating to raise additional funds of Rs. 100 million to finance expansion. It can sell new preference shares at a price of Rs. 23, less flotation cost Rs. 3 per share. It is expected that a dividend of Rs. 2 per share will be paid rate of interest. The firm pays taxes at rate of 35 per cent and intends to maintain its capital structure.

You are required (i) to calculate the after-tax cost (a) of new debt, (b) of new equity comes only from retained earnings which is just sufficient for the purpose, (ii) to calculate the marginal cost of capital, assuming no new shares are sold, (iii) to compute the maximum amount which can be spent for capital investments before new ordinary shares can be sold, if the retained earnings are Rs. 7,00,000, and (iv) to compute the marginal cost of capital if the firm spends in excess of the amount computed in (iii) the firm can sell ordinary shares at a net price of Rs. 22 per share.
