PG – 590

I 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 ?

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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. **(3×12=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 :

	% of Selling Price
Raw materials	30%
Packing materials	10%
Direct labour	15%
Direct expense	5%

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.

I Semester M.F.A. Degree Examination, January 2016
(Semester Scheme)
FINANCE AND ACCOUNTING
Paper – 1.4 : Managerial Finance

Time : 3 Hours Max. Marks : 80

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 : **(10×2=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 : **(3×5=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 : **(2×15=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 :

	Proposal 'A'	Proposal 'B'
Initial outlay (Rs.)	20,00,000	25,00,000
Estimated life (years)	4	5
Net cash flow (Rs.) :		
End of year 1	5,50,000	9,00,000
2	7,00,000	8,00,000
3	8,50,000	8,00,000
4	7,50,000	6,00,000
5	–	3,00,000

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 :

Year	1	2	3	4	5
P.V. factor	0.93	0.86	0.79	0.74	0.68

Comment on the profitability of each of the above proposals.

SECTION – D

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 :

	Financial Plan		
	1	**2**	**3**
	Rs.	**Rs.**	**Rs.**
Equity	5,000	7,500	2,500
Debt	5,000	2,500	7,500

(Cost of debt 12%).

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 (7×2=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 (4×5=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.

4. Write a note on multi-period probabilistic analysis.

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

6. Explain EOQ method of inventory control.

7. Present Miller-orr model of cash management.

SECTION – C (3×12=36)

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 indetail.

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.

Balance Sheet

Liabilities		Assets	
Equity Capital (Rs. 10 Per share)	60,000	Net Fixed Assets	1,50,000
		Current assets	50,000
10% debentures	80,000		
Retained Earnings	20,000		
Current liabilities	40,000		
	2,00,000		**2,00,000**

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 100000 units @ Rs 2 per unit

   Variable cost per unit @ Re 0.70

   Fixed cost Rs. 1,00,000

   Interest charges 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 :

Year	Cash Flow (Rs.)	
	Machine X	Machine Y
1	4,00,000	12,00,000
2	12,00,000	16,00,000
3	16,00,000	20,00,000
4	24,00,000	12,00,000
5	16,00,000	8,00,000

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)

   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 : **(1×15=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.