



PG – 971

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 ?

P.T.O.



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 :** (2x15=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%).



PG – 768

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.
- What is the importance of time value of money ?
 - What do you mean by stock dividend ?
 - How do you compute the cost of retained earnings ?
 - What do you mean by home made leverage ?
 - What is technical insolvency ?
 - Give the formula of profitability index.
 - What do you mean by optimum capital structure ?
 - What are factoring services ?
 - How do you enhance shareholders value ?
 - What do you mean by clientele effects ?

SECTION – B (4×5=20)

Answer any four questions. Each question carries five marks.

- Explain the concept of 'operating cycle'.
- 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.
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 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.

Balance Sheet

Liabilities		Assets	
Equity Capital (Rs. 10 Per share)	60,000	Net Fixed Assets	1,50,000
10% debentures	80,000	Current assets	50,000
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 :

- Determine the pattern for raising additional finance.
- Determine the post-tax average cost of additional debt.
- Determine the cost of retained earnings and cost of equity.
- 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 :

- 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
- Retained earnings - Rs. 2,00,000
- 8% Rs. 5,00,000 preference shares of Rs. 50 each issued at a discount of 5 percent.
- 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.
- 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.



- | | |
|-------------------------------------|-----------------|
| 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 :

- Determine the pattern for raising additional finance.
- Determine the post-tax average cost of additional debt.
- Determine the cost of retained earnings and cost of equity.
- 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 :

- 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
- Retained earnings - Rs. 2,00,000
- 8% Rs. 5,00,000 preference shares of Rs. 50 each issued at a discount of 5 percent.
- 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.
- 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.



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)



PG – 758

I Semester M.F.A. Degree Examination, January/February 2014
(Semester Scheme)
Finance and Accounting
Paper – 1.4 : MANAGERIAL FINANCE

Time : 3 Hours

Max. Marks : 80

- Instructions :** 1) Answer **all** Sections.
2) PV tables will be supplied on **request**.

SECTION – A

1. Answer **any ten** of the following in about **3-4 lines each**. Each sub-question carries **two marks**. (10×2=20)
- What do you mean by financial contingency ?
 - Define weighted average cost of capital.
 - What is optimal capital structure ?
 - Mention the executive functions of finances.
 - How do you enhance EPs ?
 - What are the features of CAPM ?
 - What is profitability index ?
 - What do you mean by clientele effect ?
 - Illustrate combined leverage.
 - What do you mean by 'factoring' ?
 - Illustrate operating cycle.
 - What do you mean by 'Subsidy' ?

Year	Cash Flow (Rs.)	Machine X	Machine Y
1	4,00,000	12,00,000	12,00,000
2	12,00,000	12,00,000	12,00,000
3	18,00,000	20,00,000	20,00,000
4	25,00,000	12,00,000	12,00,000
5	15,00,000	8,00,000	8,00,000

SECTION – B

- Answer **any three** questions. Each question carries **five marks**. (3×5=15)
- Explain wealth maximisation goal of Financial Management.
 - What are the merits and demerits of IRR method ?
 - How do you plan for and control the finance under inflationary situation ?

P.T.O.