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I Semester M.Com. (F.A.) Examination, February 2019
(CBCS)
COMMERCE (F & A)
Paper – 1.4 : Managerial Finance

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any seven** questions. **Each** question carries **two** mark: **(7×2=14)**

1. a) What is capital rationing ?
   b) What is optimum capital structure ?
   c) What do you mean by stock dividend ?
   d) What is profitability index ?
   e) What is trading on equity ?
   f) What is Economic Order Quantity ?
   g) What is the intrinsic value of a cell option ?
   h) What is cost of capital ?
   i) Define futures contract.
   j) What is sensitivity analysis ?

SECTION – B

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

2. Explain the goals of financial management.
3. Explain the operating cycle.
4. Explain "Miller-Orr" model of cash management.
5. What are the merits and demerits of IRR ?

P.T.O.

6. Calculate the cost of equity from the following data :

   Dividend per share – Rs. 7.50

   Estimated growth rate – 10%

   Market price per share – Rs. 95

   Face value of the share – Rs. 10

   Book value of share – Rs. 45

7. The investments in Projects A and B are Rs. 50 lakh each. The Cash Flow After Tax (CFAT) are as under :

	Project – A	Project – B (Rs. lakh)
Year	CFAF	Year CFAT
1	8	25
2	10	20
3	15	15
4	20	10
5	25	8

   Cost of capital – 18%. Which project should be accept under NPV method ?

SECTION – C

Answer **any three** questions. **Each** question carries **twelve** marks.

8. ABC Ltd. wishes to raise additional finance of Rs. 10 lakh for meeting investment plan. It has Rs. 2,10,000 in the form of retained earnings available for investment. The following are the further details.

   Debt/Equity mix (mix) – 30 : 70

   Cost of debt-up to Rs 1,80,000 – 10% before tax

   Cost of debt. – upto Rs. 1,80,000 – 16% before tax

   above Rs. 1,80,000 – 16% before tax

   E.P.S.– Rs. 4, dividend payout – 50% of earnings

   Expected growth rate in dividend – 10%

   Current market price – Rs. 44, tax rate – 50%

Determine :

a) Pattern of raising the additional capital

b) Post tax cost of debt

c) Cost of retained earnings

d) Cost of equity

e) Overall cost of capital.

9. Explain the factors influencing working capital requirement of a manufacturing firm.

10. Explain the determinants of dividend policy.

11. The following data have been furnished by A Ltd. and B Ltd. for the year ended 31-3-2015 :

	A Ltd.	B Ltd.
a) Operating leverage	3 :1	4 : 1
b) Financial leverage	2 : 1	3 : 1
c) Interest charge per annum	Rs. 12 lakh	Rs. 10 lakh
d) Corporate tax	40%	
e) Variable cost to sales	60%	50%

Prepare income statement for the companies.

12. Explain the sources of long term and short term capital requirement of manufacturing firms.