

**I Semester M.Com. Examination, May 2024
(CBCS) (2020-21 and Onwards)**

COMMERCE

Paper – 1.5 : Managerial Finance

Time : 3 Hours

Max. Marks : 70

SECTION – A



1. Answer **any seven** questions out of ten. Each question carries **two** marks :

(7×2=14)

- Bring out the assumptions of pecking order theory.
- What do you mean by optimal capita structure ?
- Define MIRR.
- State the need for investment decision.
- What is simulation analysis ?
- Distinguish risk and uncertainty.
- What is formula for calculation of P/E Ratio ?
- List out cons of equity crave out.
- Define dividend.
- State the reasons for inadequate working capital.

SECTION – B

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

- Briefly explain the objectives of corporate financial decisions.
- State the pros and cons of selecting the project under capital rationing method.
- Explain Modigliani and Miller approach.
- What is dividend ? Describe the determinants of dividend policy.

6. The Balance Sheet of M/s Seethamma & Co. is as under :

Liabilities	Amount Rs.	Assets	Amount Rs.
Equity capital (Rs.10)	60,000	Fixed assets	1,75,000
10% Debenture	80,000	Current assets	25,000
Retained earnings	20,000		
Current liabilities	40,000		
	2,00,000		2,00,000

The company's total assets turnover is 3 times, its fixed operating cost is Rs. 1,00,000 and its variable operating cost is 40% of sales. Tax rate is 40%. Calculate degree of financial leverage, degree of operating leverage and degree of combined leverage.

7. M/s Lakshmana & Co. is in need of a machine which requires an investment of Rs. 3,20,000. The net income before tax and depreciation is estimated as follows :

Year	Amount Rs.
1	1,60,000
2	60,000
3	1,08,000
4	1,12,000
5	96,000

Depreciation is to be charged on straight line basis. The tax rate is 55%.

Calculate Average Rate of Return (ARR).

SECTION – C

Answer any two questions out of four. Each question carries twelve marks :

(2×12=24)

8. What are the different techniques of capital budgeting techniques ? How do you accept or reject the project based on the techniques of capital budgeting ?



9. Sri. Subramanya and Co. has a capital of Rs. 2,00,000 divided into shares of Rs. 10 each. It has major expansion programme requiring an investment of another Rs. 1,00,000. The management is considering the following alternatives for raising this amount :

- 1) Issue of 10,000 shares of Rs. 10 each.
- 2) Issue of 10,000 12% preference shares of Rs. 10 each.
- 3) Issue of 10% debentures of Rs. 1,00,000.

The company's present Earnings Before Interest Tax (EBIT) is Rs. 60,000 p.a. You are required to calculate the effect of each of the above modes of financing on the Earnings Per Share (EPS) presuming :

- a) EBIT continues to be the same even after expansion.
- b) EBIT increases by Rs. 20,000.
- c) Assume tax liability as 50%.

10. The following two Projects A and B requires an investment of Rs. 2,00,000 each. The income returns after tax for these projects are as follows :

Year	Project A	Project B
	Rs.	Rs.
1	80,000	20,000
2	80,000	40,000
3	40,000	40,000
4	20,000	40,000
5	—	60,000
6	—	60,000

Using the following criteria, determine which of the project is preferable

- 1) 8 years payback.
- 2) ARR method.
- 3) Present value approach, if the company cost of capital is 10%.

Year	1	2	3	4	5	6
Disc. Factor	0.909	0.826	0.751	0.683	0.621	0.564



11. Following are the details regarding three companies A Ltd., B Ltd. and C Ltd. :

A Ltd.	B Ltd.	C Ltd.
$r = 15\%$	$r = 5\%$	$r = 10\%$
$k_e = 10\%$	$k_e = 10\%$	$k_e = 10\%$
$E = \text{Rs. } 8$	$E = \text{Rs. } 8$	$E = \text{Rs. } 8$

Calculate the value of an equity share of each of these companies applying Walter's formula when Dividend Payment ratio (D/P ratio) is :

- a) 25%,
- b) 50%,
- c) 75%.

SECTION – D

Compulsory skill based question on subject :

(1×12=12)

12. Paramesh Ltd. has a machine having an additional life of 5 years which costs Rs. 10,00,000 and has a book value of Rs. 4,00,000. A new machine costing Rs. 20,00,000 is available. Though its capacity is the same as that of the old machine, it will mean a saving in variable costs to the extent of Rs. 7,00,000 per annum. The life of the machine will be 5 years at the end of which it will have a scrap value of Rs. 2,00,000. The rate of income-tax is 40% and P. Ltd.'s policy is not to make an investment if the yield is less than 12% per annum. The old machine, if sold today, will realise Rs. 1,00,000; it will have no salvage value if sold at the end of 5th year.

- a) Advise Paramesh Ltd. whether or not the old machine should be replaced. Capital gain is tax free. Ignore income-tax saving on additional depreciation as well as on loss due to sale of existing machine.
- b) Will it make any difference, if the additional depreciation (on new machine) and gain on sale of old machine is also subject to same tax at the rate of 40%, and the scrap value of the new machine is Rs. 3,00,000.