



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

Paper-1.5 : Managerial Finance
(2020 – 21 and Onwards)

Time : 3 Hours

Max. Marks : 70

SECTION – A

1. Answer **any seven** out of ten. **Each** question carries **two** marks. (7×2=14)
- Define Financial Management.
 - What is dividend pay-out ratio ?
 - List any four techniques of incorporating risk in Capital Budgeting decisions.
 - What is Arbitrage process ?
 - What do you mean by irrelevance theory of dividend ?
 - How do you calculate the market price of the share according to Walter's Model ?
 - Differentiate between IRR and MIRR.
 - What are the motives of merger ?
 - What is the difference between takeover and acquisition ?
 - What are the methods of corporate valuation ?

SECTION – B

- Answer **any four** questions out of six. **Each** question carries **five** marks. (4×5=20)
- State the order in which the firms will obtain financing under the Pecking Order theory.
 - In what respect the wealth maximization is superior to profit maximization ? State the arguments against 'Profit Maximization' as a goal of financial management.
 - Discuss the various forms of dividend. Explain in brief.
 - What leads to the failure of a merger or acquisition ? How should a company ensure that merger or acquisition is successful ?

P.T.O.



6. The following data relates to the profitability distribution of the cash flows for the first year of a project being floated by Fine Chemicals Ltd.

Cash Flow (₹ lakhs)	Probability
1,350	0.13
2,500	0.25
4,000	0.35
4,500	0.27

Calculate the following measures of dispersion.

- Standard Deviation.
 - Coefficient of Variation.
7. The following information is available in respect of PQR Ltd. :

Earning per Share (E) = ₹ 15 (Constant);

Cost of Equity Capital (k_e) = 15% (Constant);

Assuming the Different Rates of return of Investment (r) 10%, 15%, 20% for different dividend payout ratios of 25%, 50% and 100%.

Examine the effect of dividend policy on the market price of shares, using Walter's model.

SECTION – C

Answer **any two** questions out of four. **Each** question carries **twelve** marks. (2×12=24)

8. R Ltd. is intending to acquire S Ltd. (by merger) and the following information is available in respect of both the companies.

Particulars	R Ltd.	S Ltd.
	₹	₹
Total current Earnings E	2,50,000	90,000
No. of Outstanding shares	50,000	30,000
Market price per share	21	14

- What is the present EPS of both the companies ?
- If the proposed merger takes place what would be the new earnings per share for R Ltd. ? (assuming the merger takes place by exchange of equity shares and the exchange ratio is based on the current market price).
- What should be the exchange ratio if S Ltd. wants to ensure the same earnings to members as before the merger took place ?



9. In Walter's Approach, the dividend policy of firm depends on availability of investment opportunity and relationship between firm's internal rate of return and its cost of capital. Critically examine Walter's relevance theory of dividends.
10. The following information is available for two companies A and B. These two companies belong to the same risk class and are identical in all respects except for leverage. Firm A uses Rs. 30,00,000 debt in the capital structure (Levered Company) at 5 percent interest and Firm B does not have debt (Un Levered Company). Both the firms have the same EBIT of Rs. 5,00,000. The equity capitalization rate is 12 percent for A and 10 percent for B. You are required to calculate the value of each of the firm.

An investor owns 10 percent of outstanding equity shares in the levered company A.

- a) Show the Arbitrage process as described by MM.
- b) Evaluate the Arbitrage process and Equilibrium as described by MM.
11. After conducting a survey that cost Rs. 2,00,000, BFW Ltd., decided to undertake a project for placing a new product on the market. The company's cut-off rate is 15% and the tax rate is 30%. It was estimated that the project would cost Rs. 60,00,000 in plant and machinery in addition to working capital of Rs. 10,00,000. The scrap value of plant and machinery at the end of 5 years was estimated at Rs. 5,00,000. After providing for depreciation on straight-line basis, profits after taxes (PAT) were estimated as follows :

Year	1	2	3	4	5
PAT (Rs.)	8,00,000	10,00,000	15,00,000	9,00,000	5,00,000

Evaluate the project by applying the technique of NPV and suggest to the management whether the project to be accepted or not.



SECTION - D

Answer the following :

(1×12=12)

12. A company has made following estimates if the CFAT of the proposed project. The company use decision tree analysis to get clear picture of project's cash inflow. The project cost Rs. 80,00,000 and the expected life of the project is 2 years. The net cash inflows are :

In Year 1, there is 0.4 probability that CFAT will be Rs. 50,00,000 and 0.6 probability that CFAT will be Rs. 60,00,000. The probabilities assigned to CFAT for the year 2 are as follows :

Year 1 cash inflows Rs. 50,00,000		Year 1 cash inflows Rs. 60,00,000	
24,00,000	.2	40,00,000	.4
32,00,000	.3	50,00,000	.5
44,00,000	.5	60,00,000	.1

The firm uses 10% discount rate for this type of investments. Apply Decision Tree Technique and suggest the acceptability of the project.

Year	1	2	3	4	5
PAT (Rs.)	50,00,000	60,00,000	15,00,000	9,00,000	5,00,000