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I Semester M.Com. Degree Examination, June 2023
(CBCS Scheme)
(2020 – 21 and Onwards)
COMMERCE
Paper – 1.5 : Managerial Finance

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Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any seven** questions out of ten. **Each** question carries **two** marks. **(7×2=14)**

1. a) What do you mean by optimal capital structure ?
   b) Define Dividend.
   c) What do you mean by cost of capital ?
   d) What do you mean by operating cycle ?
   e) Define IRR.
   f) Define PE Ratio.
   g) Distinguish between profit maximization and wealth maximization.
   h) What is sensitivity analysis ?
   i) What do you mean by leverage buyout ?
   j) Define Replacement cost.

SECTION – B

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

2. Describe the relevance of Modigliani and Miller Approach in Financial Decision.
3. Describe the key determinants of an optimal capital structure.
4. How is cost of retained earnings computed ? How does it influence on capital structuring/financing decisions ?

5. Determine the cost of capital with the help of following data :

Securities	Average Returns	Systematic Risk
A	15	1.32
B	22	1.20
C	8	0.98
D	12	1.10
E	14	1.12
F	20	1.20

$R_f = 7\%$

6. With the help of an illustration (imaginary figures) describe the process of financial decision using decision tree analysis.

7. Calculate operating leverage. Interest Rs. 5,000/-; Sales Rs. 50,000/-; variable cost Rs. 25,000/-; fixed cost Rs. 15,000/-.

SECTION – C

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

8. Calculate :

   a) Operating leverage

   b) Financial leverage and

   c) Combined leverage from the following data under situations I and II and financial plans, A and B.

   Installed Capacity, 4,000/- units

   Actual production and sales, 75% of the capacity

   Selling price, Rs. 30/- per unit

   Variable cost, Rs. 15 per unit

   Fixed cost :

   Under situation I, Rs. 15,000/-

   Under situation II, Rs. 20,000/-

9. Assuming no taxes and given the Earnings Before Interest and Taxes (EBIT), interest (I) at 10% and equity capitalization rate (Ke) below, calculate the total market value of each firm.

Firms	EBIT (Rs.)	I (Rs.)	Ke (per cent)
W	2,00,000/-	20,000/-	12
X	3,00,000/-	60,000/-	16
Y	5,00,000/-	2,00,000/-	15
Z	6,00,000/-	2,40,000/-	18

Also determine the weighted average cost of capital for each firm.

10. Determine the working capital required to finance a level of activity of 1,80,000 units of output for a year. The cost structure is as under :

Particulars	Cost per unit (₹)
Raw materials	20/-
Direct labour	5/-
Overheads (including Depreciation of Rs. 5/-)	15/-
Total cost	**40/-**
Profit	10/-
Selling price	**50/-**

Additional information :

a) Minimum desired cash balance is Rs. 20,000/-

b) Raw materials are held in stock, on an average, for 2 months.

c) Work-in-progress (assume 50% completion stage) will approximate to half-a-month production.

d) Finished goods remain in warehouse, on an average for a month.

e) Suppliers for materials extend a month credit and debtors are provided 2 months credit.

f) The cash sales are 25% of total sales.

g) There is a time lag in payment of wages of a month and half-a-month in the case of overheads.

11. Assuming yourself as a corporate financial manager of a contemporary organization you are required to develop a financial restructuring strategy for your organization, ensuring that the ownership structure, financial condition and the stake-holders interest is not affected. What are the key factors that would become the base for your strategies ? Discuss.

SECTION – D

Answer the following : **(1×12=12)**

12. Skyline software Ltd. has appointed you as its finance manager. The company wants to implement a project for which Rs. 30 lakhs is required to be raised from the market as a means of financing the project. The following financing plans and are at hand : (number in thousands).

Particulars	Plan A	Plan B	Plan C
Option – 1 :			
Equity shares	30	30	30
Option – 2 :			
Equity shares	15	20	10
12% Preference shares	NIL	10	10
10% Non-convertible debentures	15	NIL	10

Assuming corporate tax to be 35% and the face value of all the shares and debentures to be ₹ 100 each, calculate the indifference points and earnings per share (EPS) for each of the financing plans. Which plan should be accepted by the company ? Explain.