JP – 380

I Semester M.Com. Examination, July 2022
(CBCS Scheme) (2020 – 21 and Onwards)
COMMERCE
Paper – 1.5 : Managerial Finance

Time : 3 Hours Max. Marks : 70

Instruction *: Answer* ***all*** *the questions as per* ***instructions***.

SECTION – A

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

   a) What do you mean by Pecking Order theory in capital structure ?

   b) Give the meaning of risk-return trade-off.

   c) State the situation leading to calculation of MIRR.

   d) What are Indivisible projects ?

   e) Distinguish between Risk and Uncertainty.

   f) What is Sensitivity Analysis ?

   g) Give the meaning of Equity Carve Out.

   h) Distinguish between Spin-off and Sell-off.

   i) What is Bird-in-hand argument with respect to dividends ?

   j) Give the meaning of Cash Cycle.

SECTION – B

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

2. Explain the factors influencing financial decisions.

3. When do you say an investment analysis is efficient ? Explain with suitable examples.

P.T.O.

4. Green Field Ltd. is considering an investment proposal which involves a cost of Rs. 45 lakhs. Cost of capital is 16 per cent and risk-free interest rate is 6 per cent. The investment has 5 years life. It generates cash flows :

Year	2023	2024	2025	2026	2027
Cash Flows (Rs. in lakhs)	14	6	12	20	28
Certainty Equivalent Value (α)	0.95	0.90	0.80	0.75	0.60

Suggest Green Field Ltd., whether the investment proposal is feasible or not using NPV.

5. Describe the motives behind the corporate acquisitions.

6. GL Ltd., is expecting return available to equity shareholders is Rs. 5,00,000 total assets. GL has outstanding shares of 20,000. The BODs of the company have decided to pay 40 per cent of earnings as dividends. The rate of return required by equity shareholders is 12.5 per cent and rate of return expected on investment is 15 per cent.

You are required : (i) Determine value of equity share using Walter's model.

(ii) Are you satisfied with the current dividend pay-out ratio of the GL Ltd. ?

7. Proforma cost sheet of XYZ Ltd., is as follows :

Material 40 %

Direct Labour 20%

Overheads 20%

The following information is also available to :

i) It is proposed to maintain a level of activity of 2,00,000 units.

ii) Selling price is Rs. 24 per unit.

iii) Raw materials are expected to remain in store for an average period of 4 weeks.

iv) Work-in-process will be in process on an average period of 2 weeks.

v) Finished goods are required to be in stock on an average period of 4 weeks.

vi) Credit allowed by the suppliers is 4 weeks.

vii) Credit allowed to debtors is 8 weeks.

Estimate the working capital required assuming 10 per cent contingency is required.

SECTION – C

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

8. "Efficient working capital management plays a pivotal role in successes of business". Do you agree with the statement ? Justify your answer.

9. Answer the following :

   A) Risk adjusted discount rate.

   B) Scenario analysis.

   C) Utility theory and Capital budgeting.

10. S Ltd. wants to acquire N Ltd. and the cash flows of S Ltd. and the merged entity are given below :

Year	1	2	3	4	5
S Ltd. (Rs. in Lakhs)	175	200	320	340	350
Merged Entity (Rs. in Lakhs)	400	450	525	590	620

Earnings would have witnessed 5% constant growth rate without merger and 6% with merger on account of economies of operations after 5 years in each case. The cost of capital is 15%.

The number of shares outstanding in both the companies before the merger is the same and the companies agree to an exchange ratio of 0.5 shares of S Ltd. for each share of N Ltd.

You are required to :

i) Compute the value of S Ltd. before and after merger.

ii) Value of Acquisition and

iii) Gain to shareholders of S Ltd.

11. P&Q Ltd. has under its consideration a project with an initial investment of Rs. 90,00,000. Three probable cash inflow scenarios with their probabilities of occurrence have been estimated as below :

Annual Cash Inflow (Rs.)	20,00,000	30,00,000	40,00,000
Probability	0.20	0.70	0.10

The project life is 5 years and the desired rate of return is 18%. The estimated terminal values for the project assessed under the three probability alternatives, respectively, are Rs. 0, Rs. 20,00,000 and Rs. 30,00,000.

You are required to :

i) Calculate the probable NPV.

ii) Calculate the worst case NPV and the best case NPV.

iii) State the probability occurrence of the worst case, if the cash flows are perfectly positively correlated over time.

SECTION – D

Answer the following question. **(1×12=12)**

12. HS Hospital is considering to purchase a machine for medical projectional radiography which is priced at Rs. 2,00,000. The projected life of the machine is 8 years and has an expected salvage value of Rs. 18,000 at the end of 8th year. The annual operating cost of the machine is Rs. 22,500. It is expected to generate revenues of Rs. 1,20,000 per year for eight years. Presently, the hospital is outsourcing the radiography work to its neighbour Test Centre and is earning commission income of Rs. 36,000 per annum, net of taxes. Consider tax rate 30% and cost of capital is 10%.

    You are required to analyse whether it would be profitable for the hospital to purchase the machine. Give your recommendation under

    i) Net Present Value method

    ii) Profitability Index method.
