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M.COM. (SEMESTER-I) EXAMINATION, NOV 2016

CO101 ADVANCED FINANCIAL MANAGEMENT (OB10A)

Duration: 2 hours　　　　Total Marks: 50

Instructions: *1) Answer **all** questions.*
*2) Each question carries **10** marks*

Q.1] Answer the following short notes: **(5x2=10)**

a) Agency Problem
b) Coefficient of Variation
c) Operating Cycle concept
d) Risk return trade off
e) Finance function

Q.2A] What is the meaning and significance of weighted average cost of capital? **(10)**

OR

Q.2B] What are the assumptions and arguments used by Modigliani and Miller in support of the irrelevance of dividend? **(10)**

Q.3A] What is Financial Management? What are the objectives of financial management? **(10)**

OR

Q.3B] Why is maximising wealth better than maximising profits? Explain. **(10)**

Q.4A] A company is considering an investment proposal to purchase a machine costing ₹250000. The machine has a life expectancy of 5 years and no salvage value. The company tax rate is 40%. The firm uses straight line method for providing depreciation. The estimated cash flows before tax after depreciation (CFBT) from the machine are as follows.

Year	1	2	3	4	5
CFBT ₹	60000	70000	90000	100000	150000

Calculate (a) Pay back period (b) Average rate of return(c) Net present Value.

Year	1	2	3	4	5
P.V.Factor at 10%	0.909	0.826	0.751	0.683	0.621

(10)

OR

Q.4B] The following information is available in respect of a firm:-

Capitalisation rate = 10% Earning Per Share = ₹ 50.

Assumed rate of return on investment 1) 12% 2) 8%

Show the effect of dividend policy on market price of shares applying Walter's formula when dividend pay out ratio is a) 0% b) 20% c) 40% d) 80% and e)100% **(10)**

Q.5A] In considering the most desirable capital structure for a company, the following estimates of the debt and equity capital (after- tax) have been made at various levels of debt- equity mix:

Debt as a percentage of total capital employed	0	10	20	30	40	50	60
Cost of Debt %	5	5	5	5.5	6	6.5	7
Cost of Equity %	12	12	12.5	13	14	16	20

You are required to determine the optimal debt equity mix for the company by calculating composite cost of capital. **(10)**

OR

Q.5B] The following figures to two companies

	P LTD	Q LTD (In ₹ Lakh)
Sales	500	1000
Variable Costs	200	300
Contribution	300	700
Fixed Costs	150	400
	150	300
Interest	50	100
Profit before tax	100	200

You are required to 1) Calculate the operating, Financial and Combined leverage for the two companies and 2) Comment on the relative risk position of them. **(10)**