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M.Com. (Semester – I) Examination, April 2016 COC 101: ADVANCED FINANCIAL MANAGEMENT (OA-18)

Duration: 3 Hours Max. Marks: 60

Instructions: 1) This paper consists of nine questions.

- 2) Question No. 1 consists of 5 compulsory questions of 2 marks each.
- 3) Answer any 5 questions from question 2, 3, 4, 5, 6, 7, 8 and 9.
- 4) Figures to the right indicate marks.

1. Answer the following:

 $(5 \times 2 = 10)$

- a) State and explain two points of difference between Net Present Value and Internal Rate of Return.
- b) What is the meaning of Homemade Dividend?
- c) Explain the two concepts of working capital.
- d) A newly established company wishes to determine an appropriate capital structure. It can issue 12% debentures and 10% preference capital. The existing tax rate is 40%. The company requires Rs. 50,00,000. The possible capital is:

Plan	Debenture Capital	Preference Capital	Equity Capital
. 1		E in the second	100%
2	30%	Rot eta Bellikong latut	70%
3	30%	20%	50%

The face value of a share is Rs. 100. If EBIT is 12%, calculate EPS.

e) KLM Ltd. provides you the following information:

Funds required: Rs. 10,00,000

Financial plans.

Plan A: 100% Equity shares of Rs. 10 each, current market price is Rs. 25.

Plan B: 40% Equity shares of Rs. 10 each, current market price Rs. 20

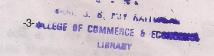
60%, 10% Debentures of Rs. 100 each. Tax rate-40%.

Calculate the indifference point between Financial Plan A and B.



			Service of the servic	20 20 20 2024 000			
	2.		inancial Manag It with Wealth M	ement ? Explain v aximisation.	vhy Profit Maximi	sation fails to be	5
		b) Explain th	ne relevance of l	Economics to Fina	incial Manageme	nt.01 000	5
	3.		should be cons s of an organisa	sidered while estin tion ?	nating the Workir	ng Capital	10
	4.	a) Explain th	ne Forms of Divi	dend.	resuccient to	and surrous	5
		b) Elaborate the statistical techniques to handle risk in capital budgeting.					
	5.	Explain the t	heories of capit	al structure.	ska zákana. Mis tewishá (8		10
	6.	Project X and	d Project Y. Eac	onsidering invest h involves a cash quivalents are as	outlay of Rs. 40,0		
				Project X	Project Y		
		Year	Cash Inflow	Certainty Equivalents	Cash Inflow	Certainty Equivalents	
		pliqato etaino	Rs. 25,000	0.8 O.8	Rs. 20,000	0.9	
		onua 2 e erff .b	Rs. 20,000	0.7	Rs. 30,000	0.8	
		3 3 50 0 0	Rs. 20,000	0.9	Rs. 20,000	0.7	
		Risk free curpreferred.	t off rate is 10%	. Suggest which o	of the two project	s should be	10
	7.	The cost she	eet of Karim Ltd	. provides the foll	owing data:		
		Item	80%	20%	Cost per un	it (Rs.)	
Rawr		Raw materia	al Alekuoleo 2001	al TIRE II DO LE	70	isy goat en l	
		Direct labou	r	awing information	28		
	Overheads (including deprecia					e, Punds radur Funds radur	
		Total cost			154	Rinanoid pla	
		Profit	urrent market p		28		
		Selling price	4	4 Hs. 10 each. cu 100 each. Tax m	182	G. POIL POB	





Additional Information:

- i) Average raw material is in stock for one month.
- ii) Average material in Work In Progress is for half month.
- iii) Credit allowed by suppliers one month.
- iv) Credit allowed to debtors one month.
- v) Average time lag in payment of wages 10 days.
- vi) Average time lag in payment of overheads 30 days.
- vii) 25% of the sales are on cash basis.
- viii) Cash balance is expected to be Rs. 1,00,000.
- ix) Finished goods lie in the warehouse for one month.

You are required to prepare a statement of working capital needed to finance a level of activity of 75,600 units of output.

Production is carried on evenly throughout the year and wages and overheads accrue similarly. State your assumptions if any. Number of working days is assumed to be 360 days.

8. The following is the capital structure of Kapil Company.

Source of Capital	Book Value	Market Value
Equity shares @ Rs. 100 each	20,00,000	40,00,000
9% Cumulative Preference Share Capital @ Rs. 100 each	5,00,000	6,00,000
11% Debenture	15,00,000	16,50,000
Retained earnings	10,00,000	12.50 (_40.000)

The current market price of the company's equity share is Rs. 200. For the last year the company had paid equity dividend at 25% and its dividend is likely to grow 5% every year. The corporate tax rate is 30% and shareholder's personal income tax rate is 20%.

You are required to calculate:

- a) Weighted average cost of capital on the basis of book value weights.
- b) Weighted average cost of capital on the basis of market value weights.

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9. The following information is available in respect of Kim Limited:

Capitalisation Rate

10%

Earnings per share

Rs. 50

Assumed Rate of Return on Investment.

- i) 12%
- ii) 8%
- iii) 10%

Show the effect of Dividend Policy on the market prices of shares applying Walter's Formula when Dividend Payout Ratio is (a) 0% (b) 20% (c) 40% (d) 80% (e) 100%.

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