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 : **(5×2=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	–	–	100%
2	30%	–	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.

2. a) What is Financial Management ? Explain why Profit Maximisation fails to be consistent with Wealth Maximisation. 5

   b) Explain the relevance of Economics to Financial Management. 5

3. What factors should be considered while estimating the Working Capital requirements of an organisation ? 10

4. a) Explain the Forms of Dividend. 5

   b) Elaborate the statistical techniques to handle risk in capital budgeting. 5

5. Explain the theories of capital structure. 10

6. Keith Company Limited is considering investment in one of the two proposals- Project X and Project Y. Each involves a cash outlay of Rs. 40,000. The expected cash inflows and certainty equivalents are as follows.

	Project X		Project Y	
Year	**Cash Inflow**	**Certainty Equivalents**	**Cash Inflow**	**Certainty Equivalents**
1	Rs. 25,000	0.8	Rs. 20,000	0.9
2	Rs. 20,000	0.7	Rs. 30,000	0.8
3	Rs. 20,000	0.9	Rs. 20,000	0.7

Risk free cut off rate is 10%. Suggest which of the two projects should be preferred. 10

7. The cost sheet of Karim Ltd. provides the following data :

Item	**Cost per unit (Rs.)**
Raw material	70
Direct labour	28
Overheads (including depreciation of Rs. 14)	56
Total cost	154
Profit	28
Selling price	182

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. **10**

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	–

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. **10**

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%. 10