B - 702 (Pages : 03) SDV - 35

[Total No. of Questions : 5]

M.Com. (Semester - I) Examination, Nov. - 2011
CO101: ADVANCED FINANCIAL MANAGEMENT

Duration : 2 Hours **Total Marks : 50**

Instructions : *1) Answer all the Questions.*
2) Each Question carrying 10 marks.

Q1) Answer the following short notes [5 × 2 = 10]

a) Distinguish Accounting and finance.

b) How do you select projects under Capital rationing.

c) EBIT-EPS analysis.

d) Calculate indifference point for the following financial plans.

Company can issue equity shares of 80,000 @ 10 each and 13% preference shares of 2,00,000 or equity shares of 40,000 @ 10 each, 13% preference shares of Rs. 2,00,000 and 15% debentures of Rs. 4,00,000.

e) Calculate duration of operating cycle. Stocks : RM Rs. 20,000, WIP Rs. 14,000, FG Rs. 21,000, Purchase of materials 96,000, CGS 1,40,000, Sales Rs. 1,60,000, Debtors Rs. 32,000, Creditors Rs. 16,000. Assume 360 days per year for computations.

Q2) a) How is the finance function in a firm organized? What are the functions that finance Manager performs in a large firm. [10]

OR

b) Explain the nature, importance and the process of Capital budgeting decision in a firm. [10]

Q3) a) What are the dangers of excessive and inadequate working capital? How do you trade-off between profitability and risk in determining adequate Working Capital? [10]

OR

b) Explain irrelevance theories on Capital structure with suitable examples. [10]

Q4) a) As a financial Analyst of a large electronics company, you are required to determine the weighted average cost of capital of the company using (i) book value weights and (ii) market value weights. The following information is available for your perusal.

The Company's present book value capital structure is :

	Rs.
Debentures (Rs. 100 per debenture)	8,00,000
Preference shares (Rs. 100 per share)	2,00,000
Equity shares (Rs. 10 per share)	10,00,000
	20,00,000

All these securities are traded in the Capital markets. Recent prices are :

Debentures, Rs. 110 per debenture

Preference shares, Rs. 120 per share

Equity shares, Rs. 22 per share

Anticipated external financing opportunities are :

A) Rs. 100 per debenture redeemable at par; 10 year maturity, 13 per cent coupon rate, 4 per cent flotation costs, sale price, Rs. 100.

B) Rs. 100 preference share redeemable at par; 10 year maturity, 14 per cent dividend rate, 5 per cent flotation costs, sale price, Rs. 100.

C) Equity shares : Rs. 2 per share flotation costs, sale price = Rs. 22.

In addition, the dividend expected on the equity share at the end of the year is Rs. 2 per share; the anticipated growth rate in dividends is 7 per cent and the firm has the practice of paying all its earnings in the form of dividends. The corporate tax rate is 35 per cent. **[10]**

OR

b) From the following information available for four companies, calculate **[10]**

i) EBIT.

ii) EPS.

iii) Operating Leverage.

iv) Financial Leverage.

Particulars	P	Q	R	S
Selling Price/unit Rs.	15	20	25	30
Variable Cost/unit Rs.	10	15	20	25
Quantity (Nos)	20,000	25,000	30,000	40,000
Fixed Costs Rs.	30,000	40,000	50,000	60,000
Interest Rs.	15,000	25,000	35,000	40,000
Tax rate %	40	40	40	40
No. of equity shares	5,000	9,000	10,000	12,000

Q5) a) A company is considering three methods of attracting customers to expand its business: (i) advertising campaign (ii) display of neon signs and (iii) direct delivery service. The initial outlay for each alternative are :

A	Rs. 1,00,000
B	1,50,000
C	1,50,000

If A is carried out but not B, A has NPV of Rs. 1,25,000. If B is done but not A, B has NPV of Rs. 1,45,000. However, if both are done, their NPV's are Rs. 2,00,000. The NPV of the delivery system C, is Rs. 90,000. Its NPV is not dependent on whether A or B is adopted, the NPV of A or B does not depend on whether C is adopted?

Which of the investments should be made by the company (I) if the firm has no budget constraint, (II) if the budgeted amount is only Rs. 2,50,000. **[10]**

OR

b) A company belongs to a risk class for which the appropriate capitalization rate is 10 per cent. It currently has outstanding 25,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of dividend of Rs. 5 per share at the end of the current financial year. The company expects to have a net income of Rs. 2.5 lakh and has a proposal for making a new investments of Rs. 5 lakh.

Show that under the MM assumption, the payment of dividend does not affect the value of the firm. **[10]**

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