M.Com. (Semester – I) Examination, November 2012
CO101 : ADVANCED FINANCIAL MANAGEMENT

Duration : 2 Hours   Max. Marks : 50

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

I. Answer the following short notes :   **(5×2=10)**

   a) Agency problem

   b) Coefficient of variation

   c) Operating cycle concept

   d) From the following information determine the indifference point.

Financial Plan	I	II
Equity	15,000 shares	30,000 shares
12% Preference shares	25000 shares @ ₹ 100 each	—
Debentures	₹ 5,00,000 (10%)	₹ 15,00,000 (11%)

   e) SRK Ltd. plans to issue 2000 new equity shares of ₹ 100 each at per. The floatation cost is expected to be 5% of the share price. The company pays a dividend of ₹ 10 per share initially and the growth in dividend is expected to be 5%. Compute cost of Equity Capital.

II. A) What is Financial Management ? How does a modern financial management differ from traditional financial management ?   **10**

   OR

   B) Compare and contrast NPV method and IRR method.   **10**

III. A) What is business risk ? How does it differ from financial risk ? How does the use of financial leverage result in increased financial risk ? **10**

OR

B) What factors should be considered while estimating the working capital requirement of an organisation ? **10**

IV. A) The company has the following capital structure.

Equity capital – 1,00,000 shares of ₹ 10 each	10,00,000
Reserves and Surplus – (retained earnings)	8,00,000
12% Debentures – 5000 @ ₹ 100 each	5,00,000
	23,00,000

1) If the company is paying dividend at 27%, calculate cost of equity and Weighted Average Cost of Capital (WACC) based on book values.

2) If the market value of equity shares is ₹ 15 each and if the debentures are quoted at ₹ 95 each. What is the weighted average cost of capital (WACC) based on market values ?
   The tax rate is assumed to be 50%. **10**

OR

B) Nelson Ltd. wants to install a new machine in place of existing old machine. which has become obsolete. Two machines are considered for this purpose. The two models differ in cost, output and cash flows. The estimated life of both the machines is 5 years.

	Machine A	Machine B
Capital outlay	2,50,000	4,00,000
Anticipated after tax cash flows		
Year 1	–	1,00,000
Year 2	50,000	1,40,000
Year 3	2,00,000	1,60,000
Year 4	1,40,000	1,70,000
Year 5	60,000	80,000

The company follows straight line method of depreciation.

The company's cost of capital is 16%

You are required to make appraisal of the two offers and advice the firm by using the following :

a) Pay Back Period   b) Average Rate of Return
c) Profitability Index   d) Net present value **10**

V. A) The following data relates to Narayani Ltd.

Earnings per share – ₹ 9

Capitalisation rate – 10%

Retention ratio – 40%

Determine the price per share under Walters model and Gordon's model, if the internal rate of return is

1) 5% 2) 10% and (3) 15% and the face value per shares is ₹ 10.   **10**

OR

B) From the following information prepare a statement of working capital requirement for a level of activity of 1,56,000 units of production.

Cost Data	Per Unit (₹)
Raw Material	90
Direct Labour	40
Overhead	75
Total cost	**205**
+ Profit	60
Selling Price	**265**

Additional Information :

1) Raw material in stock on an average for 1 month.

2) Materials are in process on an average for 2 weeks.

3) Finished goods in stock on an average for 1 month.

4) Credit allowed by suppliers is 1 month.

5) Credit allowed to customers is 2 months.

6) Delay in payment of wages 1½ weeks, delay in payment of overhead is 1 month.

7) 20% of output sold against cash.

8) Cash balance expected to be ₹ 80,000.

Production assumed to be carried out evenly throughout the year.

Assume 4 weeks equivalent to 1 month and 52 weeks in a year and provide for 10% contingencies.   **10**