Goa Vidyaprasarak Mandal's

GOPAL GOVIND POY RAITURCAR COLLEGE OF COMMERCE AND ECONOMICS

FARMAGUDI, PONDA-GOA

M. COM. (SEMESTER – I) EXAMINATION, NOVEMBER 2013

CO101 ADVANCED FINANCIAL MANAGEMENT

Duration: 2 hours   Total Marks: 50

Instructions: *1) All questions are compulsory.*
2) Each question carries 10 marks.

Q.1] Briefly answer the following: (5 x 2 = 10)

a) Capital rationing
b) Operating leverage
c) Standard Deviation
d) Risk – return trade off
e) Calculate price of equity shares (P) by using Walter model, with the help of following information:
Ke = 20%, E = ₹ 5 per share, R= 25%, D = ₹ 3 per share

Q.2.A] Discuss on Operating Cycle or Circular Flow Concept of working capital management. (10)

OR

Q.2.B] Briefly explain the three key activities of the financial manager. (10)

Q.3.A] What is the meaning and significance of weighted Average cost of capital? (10)

OR

Q.3.B] What are the assumptions and arguments used by Modigliani and Miller in support of the irrelevance of dividends? Are dividends really irrelevant? If not what are the arguments for relevance of dividend policy? (10)

Q4.A] Om Ltd wishes to determine the weighted average cost of capital for evaluating capital budgeting projects.
You have been supplied with the following information to calculate the value of K_0 for the company:

Balance sheet as on March 31st 2012

Liabilities	₹	Assets	₹
Current liabilities Debentures Preference shares Equity shares Retained earnings	90,000 90,000 45,000 120,000 45,000	Sundry assets	3,90,000
	₹ 3,90,000		₹ 3,90,000

Anticipated external financing information:
(i) 20 years, 8% Debentures of ₹ 2,500 face value, redeemable at 5 per cent premium, sold at par, 2 per cent flotation costs.
(ii) 10% Preference shares: Sale price ₹ 100 per share, 2 per cent flotation costs.
(iii) Equity shares: Sale price ₹ 115 per share; flotation costs would be ₹ 5 per share.
(iv) The corporate tax rate is 35 per cent and expected equity dividend growth is 5 per cent per year. The expected dividend at the end of the current financial year is ₹ 11 per share. Assume that the company is satisfied with its present capital structure and intends to maintain it. (10)

OR

Q4.B] From the following, prepare income statement of A Ltd, B Ltd and C Ltd. Briefly comment on each company's performance: (10)

Company	A	B	C
Financial leverage	3:1	4:1	2:1
Interest (₹)	200	300	1,000
Operating leverage	4:1	5:1	3:1
Variable cost as a percentage of sales	66.33	75	50
Tax rate	35	35	35

Q5.A] A company is considering the replacement of its existing machine obsolete and unable to meet the rapidly rising demand for its product. The company is faced with two alternatives to buy Machine A which is similar to the existing machine or to go in for Machine B which is more expensive and has much greater capacity. The cash flows at the present level of operations under the two alternatives are as follows:

Machine	cash outflow (in lakhs of ₹)	Cash Inflows (in lakhs of ₹) at the end of the years				
		1st year	2nd year	3rd year	4th year	5th year
Machine A	25	-	5	20	14	14
Machine B	40	10	14	16	17	15

The company's cost of capital is 10%.
The finance manager tries to appraise the machines by calculating the following:

a) Net Present Value b) Profitability Index c) Payback Period and d) Discounted Payback Period
At the end of his calculations, however, the finance manager is unable to make up his mind to which machine to recommend. (10)

OR

Q5.B] Tulsian Ltd. provides you the following information: (10)

Annual Cost Saving	₹ 80,000	Cost of Project	?
Useful Life	4 years	Pay Back period	2.855
NPV	₹ 14,618	Salvage value	zero
Cost of Capital	?		

Ascertain the Missing figures.
PVF for 4 years

8%	10%	12%	14%	15%
3.312	3.170	3.037	2.914	2.855

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