



M.Com. (Semester – I) Examination, November 2016
COC101 : ADVANCED FINANCIAL MANAGEMENT (OA – 18)

Duration : 3 Hours

Max. Marks : 60

- Instructions :**
- This paper consists **nine** question carrying **equal** marks.
 - Question No. **1** consists of **5 compulsory** questions of **2 marks each**.
 - Answer **any 5** questions from question **2, 3, 4, 5, 6, 7, 8** and **9**.
 - Each** question carries **10** marks. Figures to the **right** indicate marks.

1. Answer the following : (2×5=10)

- Explain as to how the wealth maximization objective is superior to the profit maximization objective.
- Are retained earnings free of cost ? Do you agree ?
- Differentiate between the business risk and financing risk of entity.
- A company is contemplating to machine. Two machines A and B are available, each costing Rs. 5 Lakhs. Machine is to be written off in five years by straight-line method of depreciation with nil residual value. Cash inflows after tax are expected as follows :

Year	Machine A (Rs. in Lakhs)	Machine B (Rs. in Lakhs)
1	1.5	0.5
2	2.0	1.5
3	2.5	2.0
4	1.5	3.0
5	1.0	2.0

Indicate which machine would be profitable using the pay back method ?

- What is Gross and Net working capital ?

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2. The following information is available in respect of the rate of return on investment, cost of capital and earnings per share of Airtel Ltd.

Rate of return on investment	=	i) 15%	ii) 12%	iii) 10%
Cost of capital	=	12%		
Earnings per share	=	Rs. 10		

Determine the value of its shares using Gordon's Model Assuming the following :

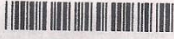
D/p Ratio (1 – b)	Retention ratio (b)	
a) 100	0	
b) 80	20	
c) 40	60	10

3. a) From the following information available for four companies, Calculate :
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

- b) From the following information, calculate the cost of equity :

Risk-free rate of interest	12%	
Expected return of market portfolio	18%	
Standard deviation of asset	2.8%	
Market standard deviation	2.3%	
Correlation coefficient of asset with market	0.8	4



4. a) Consider the following proposed investments with the indicated cash inflows :

Investments Projects	Initial outlay (Rs. '000)	Year-end cash inflows		
		Year 1 (Rs. '000)	Year 2 (Rs. '000)	Year 3 (Rs. '000)
A	200	200	Nil	Nil
B	200	100	100	100
C	200	20	100	300
D	200	200	20	20
E	200	140	60	100
F	200	160	160	80

Rank the investments deriving the Net Present Value using a discount rate of 10 per cent and state your views.

Note : Present value of Rupee one due at the end of year :

	Rs.
1	0.909
2	0.826
3	0.751

b) A company has to make a choice between two projects namely A and B. The initial capital outlay of two projects are Rs. 1,35,000 and Rs. 2,40,000 respectively for A and B. There will be no scrap value at the end of the life of both the projects. The opportunity cost if capital of the company is 16%. The annual incomes are as under :

Year	Project A	Project B	Discounting factor @ 16%
1	-	60,000	0.862
2	30,000	84,000	0.743
3	1,32,000	96,000	0.641
4	84,000	1,02,000	0.552
5	84,000	90,000	0.476

You are required to calculate profitability index for each project. 3



5. The management of Kabir Industry has called for a statement showing the working capital needs to finance a level of activity of 180000 units of output for the year. The cost structure for the company's product for the above mentioned activity level is detailed below :

	Cost per unit (Rs.)
Raw Material	20
Direct Labour	5
Overhead (including depreciation of Rs. 5 per unit)	15
	40
Profit	10
Selling Price	50

Additional Information :

- Minimum desired cash balance is Rs. 20,000.
 - Raw materials are held in stock on average for two months.
 - Work in progress (assume 50% completion stage as regards material labour and overheads) will approximate to half a month production.
 - Finished goods remain in warehouse, on an average for a month.
 - Suppliers of materials extends a month credit and debtors are provided two month credit; cash sales are 25% of total sales.
 - There is time lag in payment of wages of a month and half a month in the case of overheads.
- From the above facts, you are required to :
- Prepare a statement showing working capital needs.
 - Determine the maximum working capital finance available under the first two methods suggested by Tandon Committee. 10
6. "Finance is life blood of any business" explain the importance of finance and financial management. Also state all the major decisions are required to be taken in finance. 10
7. What do you understand by capital budgeting process ? Enumerate briefly the importance of capital budgeting. 10
8. Explain the argument in favour and against the dividend and its impact on the value of the firm. With illustration. 10
9. What is working capital ? What factors would you take into consideration in estimating the working capital needs of a concern ? 10