M.Com. (Semester – I) Examination, April 2017
COC101 : ADVANCED FINANCIAL MANAGEMENT (OA – 18)

Duration : 3 Hours Max. Marks : 60

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

1. Answer the following : **(2×5=10)**

a) Write short notes on 'Inter-relationship between investment, financing and dividend decisions.

b) Is equity capital free of cost ? Do you agree ?

c) You are required to calculate operating leverage from the following data :

Sales	Rs. 50,000
Variable Costs	60%
Fixed costs	Rs. 12,000

d) Distinguish between Net Present Value and Internal Rate of Return.

e) What is conservative approach in financing current assets ?

2. The following information is available in respect of a Reliance Jio Ltd.

Capitalization rate = 10%

Earnings per Share = Rs. 50

Assumed rate of return on investments :

i) 12%

ii) 8%

iii) 10%

Show the effect of dividend policy on market price of shares applying Walter's formula when dividend payout ratio is

a) 0% b) 20% c) 40%

d) 80% e) 100% 10

P.T.O.

3. a) X Ltd. manufactures a line of power tools used in the construction industry. Business activity has been risk in recent years, promoting X Ltd's finance manager to consider refinancing its current financial structure. As the data below in Table indicate, X Ltd presently has considerable long term debt and preference shares. The Finance Manager is proposing that an issue of 2,00,000 equity shares be sold for Rs. 50 a share and that the proceed be used to retire both the debt and the preference shares. The finance Manager feels that the refinancing would reduce the company's risk exposure but that it might also lower its EPS. Finance Manager intends to evaluate the situation by determining EPS amounts with the present structure and with the proposed all equity structure. He decides to consider two other sales levels – Rs. 40,00,000 and Rs. 60,00,000.

Income statement for upcoming years

(Existing Financial Structure)

	Rs.
Sales	50,00,000
Less Fixed Costs	12,80,000
Variable Costs (20% of Sales)	10,00,000
EBIT	**27,20,000**
Interest	7,20,000
EBT	**20,00,000**
Taxes (40% rate)	8,00,000
EAT	**12,00,000**
Preferred Dividends (9% rate on 40,00,000)	3,60,000
EATAD	8,40,000
EPS (4,00,000 shares issued)	**2.10**

From the above, with the help of leverage analysis, Should the all equity plan be adopted ? Why ? 6

b) The capital structure of Hindustan traders Ltd. as on 31-3-16 is as follows :

Equity capital : 100 lakh equity shares of Rs. 10 each	Rs. 10 Crores
Reserves	Rs. 2.0 Crores
14% Debentures of Rs. 100 each	Rs. 3.0 Crores

For the year ended 31-3-2016 the company is to pay equity dividend at 20%. As the company is a market leader with good future, dividend is likely to grow by 5% every year. The equity shares are now traded at Rs. 80 per share on the stock exchange. Income tax rate applicable to the company is 50%. Calculate current weighted cost of capital. 4

4. a) R Ltd. is considering the purchase of a new machine which will carry-out operations performed by the labour Damsel and shylock are alternative models. From the following information, you are required to prepare a profitability statement and workout the pay-back period in respect of each machine.

	Machine Damsel	**Machine Shylock**
Estimated Life of machine	10 Years	12 Years
Cost of machine	Rs. 3,00,000	Rs. 5,00,000
Cost of indirect materials p.a.	Rs. 12,000	Rs. 16,000
Estimated saving in scrap p.a.	Rs. 20,000	Rs. 30,000
Additional cost of maintenance p.a.	Rs. 14,000	Rs. 22,000
Additional cost of supervision p.a.	Rs. 24,000	Rs. 32,000
Estimated savings in indirect wages :		
Employees are required (numbers)	150	200
Wages per employee p.a.	Rs. 1,200	Rs. 1,200

Taxation is to be regarded as 50% of profit (ignore depreciation for calculation of tax). Which model would you recommend ? 6

b) A project requires an investment of Rs. 5,00,000 and has a scrap value of Rs. 20,000 after five years. It is expected to yield profits after depreciation and taxes during the five years amounting to Rs. 40,000, Rs. 60,000, Rs. 70,000, Rs. 50,000 and Rs. 20,000. Calculate the average rate of return on the investment. 4

5. XYZ Co. Ltd. is a pipe manufacturing company. Its production cycle indicates that materials, are introduced in the beginning of the production cycle; wages and overheads accrue evenly throughout the period of the cycle. Wages are paid in the next month following the month of accrual. Work in process includes full units of raw materials used in the beginning of the production process and 50% of wages and overheads are supposed to be conversion costs. Details of production process and the components of working capital are as follows :

Productions of pipe	12,00,000 Units
Duration of production cycle	One month
Raw materials inventory held	One month consumption
Finished Goods inventory held	Two months
Credit allowed by creditors	One month
Credit allowed to debtors	Two months

Cost price of raw materials	Rs. 60 per unit
Direct wages	Rs. 10 per unit
Overheads	Rs. 20 per unit
Selling price if finished pipes	Rs. 100 per unit

Required to calculate :

i) The amount of working capital required for the company.

ii) Its maximum permissible bank finance under first two methods of lending norms as suggested by Tondon Committee, assuming the value of core current assets Rs. 1,00,00,000. 10

6. a) Profit maximization is the objective of financial management. Do you agree with this objective or not ? Present your opinion with suitable examples. 6

b) Explain the role finance manager in a modern enterprise. 4

7. "Capital budgeting is long-term planning for making and financing proposed capital outlay" explain with an example. 10

8. What assumptions and arguments are used by modigliani and Miller in support of the irrelevance of dividends ? Are dividends really irrelevant ? 10

9. What is Cash Budget ? State its advantages. How does it help in determination of cash requirement of a firm ? 10
