

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:

 $(2 \times 5 = 10)$

- 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:

Rs. 50,000 Sales

Variable Costs

Rs. 12,000. Fixed costs

- 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

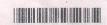
Assumed rate of return on investments:

- 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%

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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.
50,00,000
12,80,000
10,00,000
27,20,000
7,20,000
20,00,000
8,00,000
12,00,000
3,60,000
8,40,000
2.10

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

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.

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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.

dirturag 001 .eA.	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:		with this object
Employees are required (numbers)	150	overtinisia 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?

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.

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 compa	any.	
 ii) Its maximum permissible bank finance under first two methods of le norms as suggested by Tondon Committee, assuming the value of core of assets Rs. 1,00,00,000. 			
6.	a) Profit maximization is the objective of financial manawith this objective or not? Present your opinion withb) Explain the role finance manager in a modern enterpresent.	suitable examples.	6
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7.	"Capital budgeting is long-term planning for making and fin outlay" explain with an example.	ancing proposed capital	10
8.	What assumptions and arguments are used by modiglian the irrelevance of dividends? Are dividends really irrelevance		10
9.	What is Cash Budget? State its advantages. How does it cash requirement of a firm?	help in determination of	10