RPN – 18

M.Com. (Semester – I) Examination, November 2017
COC 101 : ADVANCED FINANCIAL MANAGEMENT (OA-18)

Duration : 3 Hours

Max. Marks : 60

Instructions : *1) This paper consists of **nine** questions carrying **equal** marks.*
*2) Question **1** consists of **5 compulsory** questions of **2** marks **each**.*
*3) Answer **any 5** questions from question Nos. **2, 3, 4, 5, 6, 7, 8** and **9**.*
*4) **Each** question carries **10** marks. Figure to the **right** indicates marks.*

1. A) Profit Maximisation Vs. Wealth Maximisation. **2**

   B) How do you estimate Maximum Permissible Bank Finance (MPBF) under Method I of Tondon Committee ? **2**

   C) What is Indifferent point in Capital Structure ? Write its Formula. **2**

   D) The following information is available regarding RS Fertilizers Ltd., Compute Financial Leverage. **2**

Profit Before Depreciation Interest and Taxes	₹ 825.26 cr.
Depreciation	₹ 5.96 cr.
Effective tax rate	30%
Earnings Per Share	₹ 3.647
Book value	₹ 28.74 per share
No of outstanding shares	₹ 33.146 cr.
Debt/Equity ratio	1.4:1

   E) A Company's EPS is ₹. 30, Cost of Equity (Ke) is 8 per cent. If the company has a policy of retained earnings of 25 per cent of profits, Compute the price of share using Gordon's Dividend Theory, assuming that return on investment is 30 per cent. **2**

P.T.O.

2. What is Financial Management ? Discuss in brief the functions of Financial Management. 10

3. What is Capital Structure ? Discuss the factors affect Capital Structure of a Firm. 10

4. What is Receivable Management ? How do you illustrate the impact of Credit Policy on Earnings of firm ? Illustrate. 10

5. S E Ltd. has the following book value for Capital Structure as on March, 31, 2016.

Source Capital	Amount ₹
Equity Share capital @ ₹ 20 per share of 2,00,000 shares	40,00,000
11.5% Preference Shares	10,00,000
10% Debentures	30,00,000
Total	**80,00,000**

The equity share of the company sells for ₹ 20. It is expected that the company will pay next year a dividend of ₹ 2 per equity share, which is expected to grow at 5% per annum forever. Assume a 35% Corporate Tax rate.

Required :

a) Compute Weighted Average Cost of Capital of the company based on the existing capital structure.

b) Compute the new Weighted Average Cost of Capital, if the company raises an additional ₹ 20 lakhs debt by issuing 12% debentures. This would result in increasing the expected equity dividend to ₹ 2.40 and leave the growth rate unchanged, but the price of equity share will fall to ₹ 16 per share. 10

6. A) There are two companies R and E. Company R has 10% debentures at the value of ₹ 12 Crores in its Capital Structure. The company E has 10% debentures of the value of ₹ 14 crores. The Operating Profit (EBIT) of the companies is ₹ 2 Crores with the equity capitalization rate (Ke) being 12%. You are required to find out, Value of the Firm (V), Overall Cost of Capital (Ko) under Net Income (NI) Approach. 5

B) The Company has Operating Profit (EBIT) of ₹ 2 Crore. The Cost of debt is 10% and an outstanding debt amounting to ₹ 8 Crores. The overall capitalization rate is 12.5%. The company decides to increase the amount of debt from ₹ 8 Crores to ₹ 10 Crores at 10% and uses the proceeds to pay off the equity shareholders. You are required to calculate the total Value of the firm and also the equity capitalization rate according to Net Operating Approach (NOI). 5

7. From the following information you are required to estimate the net Working Capital Requirement. 10

Elements of Cost	Cost per Unit ₹
Raw Materials	400
Direct Labour	150
Overheads (excluding Depreciation)	300
Total Cost	**850**

Additional information :

Particulars	
Selling Price per unit (₹)	1,000
Output per annum	52,000 units
Raw materials in stock on an average	4 weeks
Work-in-Progress (assume 50% completion stage with full material consumption) on an average	2 weeks
Finished goods in stock on an average	4 weeks
Credit allowed by suppliers on an average	4 weeks
Credit allowed to debtors on an average	8 weeks
Cash at bank is expected to be (₹.)	50,000

Assume that production is sustained at an even pace during the 52 weeks of the year. All sales are on credit basis. State any other assumption that you might have made while computing.

8. Omega Company has a cost of equity of 10%, the current market value of the firm, V, ₹ 20,00,000 (₹ 20 per share). Assumed values for I (New Investment), E (Earnings) and D (dividends) at the end of the year are I = ₹ 6,80,000, E = ₹ 1,50,000 and D = ₹ 1 per share. Show that under the Modigliani-Miller assumptions, the payment of Dividends does not affect the value of the firm. **10**

9. There are two mutually exclusive projects under active consideration of a company. Both the projects have a life of five years and have initial cash outlays of ₹ 1,00,000 each. The company pays tax at 50% rate and the maximum required rate of the company has been given as 10%. The straight line method of depreciation will be charged on the projects. The projects are expected to generate a net cash inflow before taxes as follows : **10**

Year	Project X (₹)	Project Y (₹)
1	40,000	60,000
2	40,000	30,000
3	40,000	20,000
4	40,000	50,000
5	40,000	50,000

With the help of the above information you are required to calculate :

a) The Pay-back period of each project

b) The Average Rate of Return.

c) The Net Present Value at 10% and

d) Profitability Index at 10% discount rate.

On the basis of your calculations advise the company which project it should accept giving reasons.

PVIF Factors at 10% discount rate

Year	1	2	3	4	5
PV Factor	0.909	0.826	0.751	0.683	0.621