



M.Com. (Semester – I) Examination, November 2014

COC101 : ADVANCED FINANCIAL MANAGEMENT (OA – 18)

Duration : 3 Hours

Max. Marks : 60

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

1. Answer the following short questions : (5x2=10)
- a) Organisation of Finance Function.
 - b) NPV v/s IRR.
 - c) EBIT and EPS analysis.
 - d) The following information of two companies A and B are given. Calculate operating leverage, financial leverage and combined leverage for both the companies. Also comment on the relative risk position of the company.

Particulars	Company A (Rs.)	Company B (Rs.)
Sales	50,00,000	80,00,000
Variable Cost	20,00,000	25,00,000
Fixed Cost	12,00,000	15,00,000
Interest	8,00,000	12,00,000

- e) A company is proposing for a project which requires an initial investment of Rs. 40,000 and is expected to generate cash flow of Rs. 16,000 every year for 4 years. Calculate NPV and IRR.
2. Explain the role of Finance Manager in a modern enterprise. 10
3. Explain the arguments in favour and against dividends in determining the value of the firm. 10

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4. Explain the sources of working capital and various committee reports on bank finance. 10
5. Explain the meaning, significance of capital budgeting. Also explain investment evaluation criteria of various capital budgeting techniques. 10
6. A company is considering two mutually exclusive projects X and Y. Project X costs Rs. 30,000 and project Y Rs. 36,000. You have been given the net present value probability distribution for each project.

Project X		Project Y	
NPV Estimate (Rs.)	Probability	NPV Estimate (Rs.)	Probability
3,000	0.1	3,000	0.2
6,000	0.4	6,000	0.3
12,000	0.4	12,000	0.3
15,000	0.1	15,000	0.2

- a) Compute the expected net present value of projects X and Y.
- b) Compute the risk attached to each project that is, standard deviation of each probability distribution.
- c) Which project do you consider more risky and why ?
- d) Compute the profitability index of each project. 10
7. XYZ Ltd. has the following book value capital structure :

Equity Capital (in shares of Rs. 10 each, fully paid up-at par)	Rs. 15 crs
11% preference capital (in shares of Rs. 100 each, fully paid up-at par)	Rs. 1 crs
Retained Earnings	Rs. 20 crs
13.5% Debentures (of Rs. 100 each)	Rs. 10 crs
15% term loans	Rs. 12.5 crs

The next expected dividend on equity shares per share is Rs. 3.60; dividend per share is expected to grow at the rate of 7%. The market price per share is Rs. 40. Preference stock, redeemable after ten years, is currently selling at Rs. 75 per share. Debentures, redeemable after six years, are selling at Rs. 80 per debenture. The Income-tax rate for the company is 40%.

You are required to calculate the weighted average cost of capital using :

- a) Book value proportions and
- b) Market value proportions. 10



8. A company is considering methods of financing its establishment. Initially Rs. 2,00,000 will be needed. The company is considering two proposals for the purpose :

i) Issue 15% debentures of Rs. 1,00,000 and issue of 1,000 equity shares of Rs. 100 each,

ii) Issue of 2,000 equity shares of Rs. 100 each. The corporate tax rate is 35%.

a) i) Compute the indifference point of the above proposed two financial plans.

ii) Show that indifference point computed in (a) above is correct

iii) Compute EPS under the two proposed financial plans if EBIT is Rs. 30,000 and Rs. 40,000. How do you explain the difference in your results ?

b) Assume that levered financial plan is used. Initially the company is expected to operate at a level of 1,00,000 units (selling price, Rs. 2 per unit; variable costs Rs. 1 per unit and fixed costs Rs. 50,000). Your calculations will show increase in EBIT, compared to assumed level of EBIT in a (iii) of Rs. 40,000. What is the percentage increase in EPS due to increase in EBIT ? Use these figures to compute the degree of financial leverage.

c) Assuming everything to be the same as given in situation 2 except that sales rise by 20% from 1,00,000 units to 1,20,000 units,

i) Compute the percentage increase in EPS.

ii) What is the degree of operating leverage (take 1,00,000 units as the base level) ?

iii) Determine the combined leverage. 10

9. From the following data, compute the duration of the operating cycle for each of the two years and comment on the increase/decrease :

	Year 1 (Rs.)	Year 2 (Rs.)
Stocks :		
Raw Materials	10,000	13,500
Work-in-progress	7,000	9,000
Finished goods	10,500	12,000
Purchase of raw materials	48,000	67,500
Cost of goods sold	70,000	90,000
Sales	80,000	1,00,000
Debtors	16,000	25,000
Creditors	8,000	9,000

Assume 360 days per year for computations purposes. 10