Goa Vidyaprasarak Mandal's

Gopal Govind Poy Raiturcar College of Commerce and Economics,

Ponda Goa

M.Com (Semester I) Examination, April 2015

CO101: ADVANCED FINANCIAL MANAGEMENT

Duration : 2 hours   Total Marks: 50

Instructions: 1) Answer all Questions
2) Each question carries 10 marks

---

1. Write short notes on the following (5 x 2marks = 10)
   a. Standard Deviation
   b. Walter's Model of Dividend policy
   c. Agency Problem
   d. Calculate discount payback period for the following project considering discount factor of 10%, project initial cost ₹60,000

Year	1	2	3	4	5	6
CFAT	30,000	20,000	20,000	10,000	5000	5000

   e. A firm has sales of 1,00,000 units at ₹10 p.u. variable cost of the produced product is 60% of the total sales revenue. Fixed cost is ₹2,00,000. The firm has used a debt of ₹5,00,000 at 20% interest. Calculate the operating leverage and financial leverage.

2. A) What is Capital budgeting? Explain the process and techniques of investment Evaluation. (10)

OR

2. X) What do you mean by Financial Management? Explain the functions that finance manager perform in large firms? (10)

3.A) Explain Walter's and Gordon models on dividend policy. (10)

OR

3.X) What is Capital Asset Pricing Model? Explain its Assumptions. (10)

4.A) The following information is available for Avanti Corporation.
EPS 5.00
Rate of return required by shareholder 15%
Rate of return on investment 18%
What will be the price per share as per Walter's model if the payout ratio is 40%, 50% and 60%. (10)

OR

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

	Year 1	Year 2
Stock		
Raw Material	20,000	27,000
Work in progress	14,000	18,000
Finished Goods	21,000	24,000
Purchase of RM	96,000	1,35,000
Cost of goods sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

Assume 360 Days per year for computation purpose. (10)

5. A) XYZ Company with net earnings of ₹6,00,000 is attempting to evaluate number of possible structure given below:

Capital Structure	Debt in capital Structure	Cost of Debt	Cost of Equity
A	3,00,000	12%	15%
B	2,50,000	11%	13.5%
C	2,00,000	10%	12.5%
D	1,50,000	10%	12%

The total capital proposed to be employed is ₹ 5,00,000. Calculate the weighted average cost of capital (WACC) for each structure given above. Identify the capital structure that you recommend for XYZ company and why? (10)

OR

5.X) Walter Ltd wants to install a new machinery in place of existing old machine which has become obsolete. Two machinery are considered for this purpose. The two models differ in cost, output and cash flows. The estimated life of both the machine is 5 years.

	Machine A	Machine B
Cash Outlay	125000	200000
Anticipated after cash flows		
Year 1	-	50,000
Year 2	25,000	70,000
Year 3	1,00,000	80,000
Year 4	70,000	85,000
Year 5	30,000	40,000

The company follows straight line method of depreciation. The company's cost of capital is 16%. You are required to make appraisal of the two offers and advice the firm of following:

a) Payback Method b) Average rate of return

c) Profitability Index d) Net Present Value. (10)