SDV – 1

M.Com. (Semester – I) Examination, November 2015
COC 101 : ADVANCED FINANCIAL MANAGEMENT (OA-18)

Duration : 3 Hours　　　　Max. Marks : 60

Instructions : *1) This paper consists of **nine** questions.*

*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) Figures to the **right** indicate marks.*

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

   a) What are the accept reject rules for Profitability Index ?

   b) State and explain two points of difference between Permanent Working Capital and Temporary Working Capital.

   c) Explain the types of Leverages.

   d) A company is considering a new project for which the investment data is as follows :

Capital Outlay	Rs. 2,00,000
Depreciation	20%

   Forecasted annual income before depreciation but after all other charges are as follows :

	Rs.
Year 1	1,00,000
2	1,00,000
3	80,000
4	80,000
5	40,000

   On the basis of the available data, evaluate the project under.

   i) Payback period

   ii) Accounting Rate of Return.

P.T.O.

e) What is the required return on equity in each project under the CAPM ? Interpret the results.

Project	Risk Free Returns	Expected Market Value	β (%)
A	5	7.5	1
B	7	10	1.5
C	5.5	9	0.9
D	4.5	8	1.4

2. a) "Financial Management is more than procurement of funds". Explain the functions of the Finance Manager. 5
   b) Explain the objectives of Financial Management. 5
3. Explain the methods of Capital Budgeting based on time value for money. 10
4. Elaborate the Relevance and Irrelevance Capital Structure Theories. 10
5. a) Explain the Gordon's Model of Dividend. 5
   b) What is Capital Rationing ? How is Project selection done under Capital Rationing ? 5
6. A company plans to manufacture and sell 1,000 units of output per month at a price of Rs. 1,500 each. The ratio of costs to selling price are as follows :

Item	% of Selling Price
Raw materials	30
Packing materials	10
Direct labour	15
Direct expenses	5

Fixed overheads are estimated at Rs. 10,80,000 p.a.

Following norms are maintained for inventory management :

Raw materials	30 days
Packing materials	15 days
Finished goods	200 units
Work in progress (raw materials at 100% and 50% of wages, expenses and overheads)	7 days

Other particulars are given below :

i) Credit sales represent 80% of total sales and the dealers enjoy 30 working days credit. Balance 20% are cash sales.

ii) Creditors allow 21 working days credit for payment.

iii) Lag in payment of overheads and expenses is 15 working days.

iv) Cash requirement to be 12% of Net working capital.

v) Working days in a year are taken as 300 days for budgeting purposes.

vi) Debtors are valued at selling price.

Prepare a working capital requirement forecast for the budget year. 10

7. The earnings per share of a company are Rs. 8 and the rate of capitalisation applicable to the company is 10%. The company has before it an option of adopting a Payout Ratio of 25% or 50% or 75%. Using Walter's formula of dividend payout, compute the market value of the company's share if the productivity of Retained Earnings is

i) 15% ii) 10% and iii) 5% 10

8. XYZ Ltd. provides you the following information :

Installed capacity	1,50,000 units
Actual production and sales	1,00,000 units
Selling price per unit	Re.1
Variable cost per unit	Re. 0.50
Fixed costs	Rs. 38,000
Funds required	Rs. 1,00,000

	Financial Plans		
Capital Structure	A	B	C
Equity shares of Rs. 100 each to be issued at 25% premium	60%	40%	35%
15% Debt	40%	60%	50%
10% preference shares of Rs.100 each	-	-	15%

Assume Income tax @ 40%

Additional information :

a) To calculate the Degree of Financial Leverage, Degree of Operating Leverage and Degree of Combined Leverage for each financial plan.

b) To calculate Earnings Per Share and Market Price Per Share if Price Earnings Ratio in Plan A is 10 times and in plan B and C is 8 times.

c) To calculate the indifference point between plan A and B.

d) To calculate the financial Break Even Point for each plan and to suggest which financial plan has more risk. **10**

9. ABC Ltd. has the following book value capital structure.

Source of capital	Amount (Rs. In lakhs)
Equity Capital (10 million shares, Rs. 10 par)	100
11% Preference share capital (1,00,000 shares Rs.100 par)	10
Retained earnings	120
13.5% Debenture (5,00,000 Debentures of Rs. 100 par)	50
12% Term loans	80
	360

The next expected dividend per share is Rs. 1.50. The dividend per share is expected to grow at the rate of 7%. The market price share is Rs. 20.

Preference stock, redeemable after 10 years is currently selling for Rs. 75 per share.

Debentures redeemable after 6 years are selling for Rs. 80 per debenture. The tax rate for the company is 50%.

You are required to calculate :

a) Weighted average cost of capital on the basis of book value weights.

b) Weighted average cost of capital on the basis of market value weights. **10**