GVM'S GGPR College of Commerce & Economics, Ponda – Goa

M.Com Semester I End Examination, January 2023

COTC-401– Advanced Financial Management

Duration: 2 Hours **Maximum Marks: 40**

Instructions:
1. This paper consists of **6 questions** carrying equal marks.
2. Question no. 1 **compulsory.**
3. Answer **any 3 questions** from question Nos. 2 to 6.
4. Each question carries 10 marks. Figures to the **right indicates marks.**
5. All **working** should form part of your **answer**.

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

a) Explain Wealth Maximization goal.
b) Explain Investment decision as a finance function.
c) What is Inventory management?
d) Explain stock split with an example.
e) Explain Credit Policy Variables.

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

a) Explain the interface between finance and other business functions.
b) Explain the factors that are influencing the working capital requirements of a firm.

Q.3. Answer the following: **(2*5 = 10)**

a) List and explain any six factors influencing a company's dividend decision.
b) Explain dividend theories, as well as their benefits and drawbacks.

Q.4. Answer the following: **(10)**

Solar Ltd, has the following book value capital structure:

Equity Capital (shares of ₹10 each, fully paid up-at par)	₹15,00,000
11% Preference Capital (shares of ₹100 each, fully paid up-at par)	₹1,00,000
Retained Earnings	₹20,00,000
13.5% Debentures (of ₹100 each)	₹10,00,000
15% Term Loans	₹12,50,000

The next expected dividend on equity shares per share is ₹3.60; the dividend per share is expected to grow at the rate of 7%. The market price per share is ₹40. Preference stock, redeemable after ten years, is currently selling at ₹75 per share.am den

Debentures, redeemable after six years, are currently selling at ₹80 per debenture.

The Income-tax rate for the company is 40%.

Calculate the weighted average cost of capital at book value and market value.

Q.5. Answer the following: (10)

A company has made following estimates if the CFAT of the proposed project. The company use decision tree analysis to get clear picture of project's cash inflow. The project cost ₹8,00,000 and the expected life of the project is 2 years. The net cash inflows are:

In Year 1, there is 0.4 probability that CFAT will be ₹5,00,000 and 0.6 probability that CFAT will be ₹6,00,000.

The probabilities assigned to CFAT for the Year 2 are as follows:

If CFAT = ₹5,00,000		If CFAT = ₹6,00,000	
₹	Probability	₹	Probability
2,40,000	0.2	4,00,000	0.5
3,20,000	0.3	5,00,000	0.4
4,40,000	0.5	6,00,000	0.1

The firm uses 10% discount rate for this type of investments.

Evaluate the project using the NPV method and comment on it.

PV table

Periods (n)		1	2	3	4	5
Interest rates (r)	8%	0.926	0.857	0.794	0.735	0.681
	9%	0.917	0.842	0.772	0.708	0.65
	10%	0.909	0.826	0.751	0.683	0.621

Q.6. Answer the following: (10)

Savior Ltd. has requested that you prepare their cash budget for the period January 2023 to June 2023. The following information is available:

i. The estimated sales for the period of January 2023 through June 2023 are as follows: ₹1,50,000 per month from January through March, and ₹2,00,000 per month from April through June.

ii. The sales for the months of November and December of 2022 have been ₹1,40,000 each

iii. The division of sales between cash and credit sales is as follows: 20 percent cash and 80 percent credit.

iv. Credit collection pattern is: 40 and 60 percent after one and two months respectively.

v. Bad debt losses are nil.

vi. Other anticipated receipts are:

   a. ₹70,000 from the sale of a machine in April,

b. ₹3,000 interest on securities in June.

vii. The estimated purchases of materials are: ₹60,000 per month from January to March and ₹80,000 per month from April to June.

viii. The payments for purchases are made approximately a month after the purchase.

ix. The purchases for the months of December, 2022 have been ₹60,000 for which payment will be made in January 2023.

x. Miscellaneous cash purchases of ₹3,000 per month are planned, January through June.

xi. Wage payments are expected to be 25,000 per month, January through June.

xii. Manufacturing expenses are expected to be ₹32,000 per month, January through June

xiii. General administrative and selling expenses are expected to be ₹15,000 per month.

xiv. Dividend payment of ₹30,000 and tax payment of ₹35,000 are scheduled in June 2023.

xv. A machine worth ₹80,000 is planned to be purchased on cash in March 2023.

The cash balance as on 1st January 2023 is 28,000. The minimum cash balance required by the firm is ₹30,000. Prepare a statement showing the surplus/deficit in relation to the minimum cash balance required.

--------------------***Best of Luck***--------------------