G.V.M.'s Gopal Govind Poy Raiturcar College of

Commerce and Economics, Ponda Goa.

M.Com. Semester -I End Examination, November 2023

COM 500: Advanced Financial Management

Duration: 2 Hours　　　　Total Marks: 40

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

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1. Answer the following. **(5x2=10)**

a) What is the importance of time value of money in business decisions making?

b) What is the effect of interest payment on debentures on profits?

c) Explain cash operating cycle.

d) Write any four assumptions of dividend irrelevance theory of Modigliani and Miller.

e) What is stock split?

2. Calculate the Weighted Average Cost of Capital using the following data.

a) Book value weights Basis

b) Market value weights Basis

The capital structure of the company is as under:

Debentures (Rs 100 per debenture) ₹ 5,00,000

Preference shares (Rs 100 per share) ₹ 5,00,000

Equity shares (Rs 10 per share) ₹10,00,000

The market prices of these securities are: Debenture Rs 105 per debenture, Preference Rs 110 per preference share and Equity Rs 24 each.

Additional information:

i. Rs 100 per debenture redeemable at par, 10% coupon rate, 4% flotation costs, 10-year maturity.

ii. Rs 100 per preference share redeemable at par, 5% coupon rate, 2% flotation cost and 10-year maturity.

iii. Equity shares have Rs 4 flotation cost.

The expected dividend is Rs 10 with annual growth of 5%. The firm has a practice of paying all earnings in the form of dividend. Corporate tax rate is 30%. **(10 marks)**

3. Zenith Industrial Ltd. are thinking of investing in a project costing Rs. 20 lakhs. The life of the project is five years, and the estimated salvage value of the project is zero. Straight line method of charging depreciation is followed for no. of years. The tax rate is 50%. The expected cash flows before tax are as follows:

years	1	2	3	4	5
Estimated Cash flow before depreciation and tax	400000	600000	800000	800000	1000000

You are required to determine the: (i) Payback Period for the investment, (ii) Average Rate of Return on the investment, (iii) Net Present Value at 10% Cost of Capital (iv) Profitability Index and interpret the result. **(10 Marks)**

4. M ltd. belongs to a risk class for which the capitalization rate is 10%. It has 25000 outstanding shares, and the current market price is ₹ 100. It expects a net profit of ₹ 2,50,000 for the year and board is considering dividend of ₹ 5 per share.

M Ltd requires raising ₹ 5,00,000 for an approved investment expenditure.

Illustrate how the MM approach affects the value of M Ltd. if dividends are pad or not.

(10 marks)

5. Explain any five techniques of inventory control. **(10 marks)**

6. Financial Management require principles of management. Explain the importance of financial management. **(10 marks)**