**Goa Vidyaprasarak Mandal's Gopal Govind Poy Raiturcar College of Commerce and Economics, Ponda Goa**

M.Com. Semester I

ISA I August 2024

**COM 500: Advanced Financial Management**

Time: 1 hour Marks: 20

**Q.1.** A company is considering the possibility by raising of ₹ 10 lakhs by issuing debt, preference capital, and equity and retained earnings. The book values and the market values of the issues are as follows: **(15 Marks) (BL3 CO2)**

| **Source of capital** | **Book Value** | **Market Value** |
|---|---|---|
| Ordinary Shares | ₹ 3,00,000.00 | ₹ 6,00,000.00 |
| Reserves (retained earnings) | ₹ 1,00,000.00 | |
| Preference Shares | ₹ 2,00,000.00 | ₹ 2,40,000.00 |
| Debt | ₹ 4,00,000.00 | ₹ 3,60,000.00 |
| **Total** | ₹ 10,00,000.00 | ₹ 12,00,000.00 |

The following costs are expected to be associated with the above-mentioned capital issues. (Assume tax rate @35 percent)

i. The firm can sell a 20-year, ₹ 1,000 face value debenture with a 16% rate of interest. An underwriting fee of 2% of the market price would be incurred to issue the debentures.

ii. The 11 percent, ₹ 100 face value preference issue can fetch ₹ 120 per share. However, the firm will have to pay ₹ 7.25 per preference share as an underwriting commission.

iii. The firm's ordinary share is currently selling for ₹ 150. It is expected that the firm will pay a dividend of ₹ 12 per share at the end of the next year, which is expected to grow at a rate of 7 percent. The new ordinary shares can be sold at a price of ₹ 145. The firm should also incur ₹ 5 per share flotation cost.

Calculate **Weighted Average Cost of capital** using book values and market values.

**Q.2. Answer Any One of the following.**

A. What is Time Value of Money? (4 marks, BL1 CO1)

B. Explain the objectives of Financial Management (4 marks, BL2 CO1)

**Q.3**. Debentures with no maturity period are called as _____________. (1 Mark BL1 CO1)