

M.Com DEGREE EXAMINATION, APRIL 2019
II Year IV Semester
Advanced Financial Management

Time : 3 Hours

Max.marks :75

Section A ($10 \times 2 = 20$) Marks

Answer any **TEN** questions

1. Define Financial Management.
2. Mention any two objectives of Financial Management.
3. What is time value of money?
4. Write a short note on methods of risk management.
5. What do you mean by weighted average cost of capital?
6. What is meant by dividend policy?
7. Define the term capital structure.
8. State the different types of leverages.
9. What is under capitalisation?
10. Define working capital.
11. What is operating cycle?
12. What is Net Working Capital?

Section B ($5 \times 5 = 25$) Marks

Answer any **FIVE** questions

13. Explain the scope of financial management.
14. Investor invests Rs.500 Rs. 1,000 and Rs. 2,000 at the end of each year. Calculate the compound value at the end of 3 years compounded annually when interest is charged at 10% p.a. (compounding interest factor 1.100,1.210,1.000)
15. X company earns Rs.10 per share. Cost of capital is 10%. and rate of return 15%. Determine the market price per share under Gordon's model. If the payout is a) 60% b) 40%.
16. Explain the factors affecting capital structure.

17. The installed capacity of a factory is 600 units. Actual capacity used is 400 units. Selling price per unit is Rs. 10. Variable cost is Rs. 6 per unit.

Calculate the operating leverage in each of the following situations:

- When fixed costs are Rs. 400
 - When fixed costs are Rs. 800
 - When fixed costs are Rs. 1,000
 - When fixed costs are Rs. 1,200
18. What are the factors influencing working capital?
19. From the following estimates, calculate the average amount of working capital required.

	Rs.
(a) Average amount locked up in stock:	
Stock of finished goods and W.I.P	10,000
Stock of stores, materials etc.,	8,000
(b) Average credit given:	
Local sales 3 weeks credit	1,04,000
Outside the state 5 weeks credit	3,12,000
(c) Time allowed for payments:	
For Purchase 5 weeks	78,000
For Wages 3 weeks	2,60,000
(d) Allow 10% contingencies.	

Section C ($2 \times 15 = 30$) Marks

Answer any **TWO** questions

20. a) Explain the importance of financial management.
- b) Given the time value of money as 10%. You are required to find out the present value of future cash inflows that will be received over next four years. Present Value factor @ 10% (0.909,0.826,0.751,0.683)

21. Details regarding three companies are given below:

A Ltd.	B Ltd.	C Ltd.
$r = 15\%$	$r = 10\%$	$r = 8\%$
$K_e = 10\%$	$K_e = 10\%$	$K_e = 10\%$
$E = \text{Rs.}10$	$E = \text{Rs.}10$	$E = \text{Rs.}10$

By using Walter's model, you are required to calculate the value of an equity shares of these companies when dividend payout ratio is (a) 20% (b) 50% (c) 0% (d) 100%.

22. From the following capital structure of a company calculate the overall cost of capital Using

- a) Book value of weights and
- b) Market value of weights

Sources	Book Value(Rs)	Market value(Rs)	specific cost after tax
Equity share capital	45,000	90,000	14%
Retained earnings	15,000	---	13%
Preference share capital	10,000	10,000	10%
Debentures	30,000	30,000	5%

23. a) X Ltd has a share capital of Rs. 1,00,000 divided into shares of Rs.10 each. It has a major expansion programme requiring an investment of another Rs.50,000. The management is considering the following alternatives for raising this amount:

- i) Issue of 5,000 equity shares of Rs. 10 each.
- ii) Issue of 5,000, 12% preference shares of Rs.10 each.
- iii) Issue of 10% debentures of Rs. 50,000.

The company's present earnings before interest and tax are Rs.30,000 p.a. You are required to calculate the effects of each of the above modes of financing on the earnings per share presuming EBIT increases by 10,000.(Assuming tax liability 50%)

- b) Explain various sources of finance.