M.Com. DEGREE EXAMINATION,APRIL 2020
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. What is meant by Financial Management?
2. Mention any two objectives of Financial Management.
3. What do you understand by 'Time Value of Money'?
4. State the meaning of Sensitivity Analysis.
5. Write a short note on Marginal Cost of Capital.
6. What is meant by Dividend Policy?
7. State Traditional Approach to Capital structure.
8. What do you mean by Operating Leverage?
9. What is a Credit Policy?
10. Write a note on Working Capital Management.
11. A Project costs Rs.20,00,000 and yields annually a profit of Rs.3,00,000 after depreciation at 12 $\frac{1}{2}$ but before tax at 50%. Calculate pay- back period.
12. From the following information, calculate operating leverage:

No. of units produced and sold	:	30,000
Selling price per unit	:	Rs.20
Variable cost per unit	:	Rs.10

Fixed cost per unit at current level of sales is Rs.5.

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

Answer any **FIVE** questions

13. State briefly the significance of Financial Management.
14. Explain the various methods of evaluating capital expenditure decisions.
15. What are the factors influencing working capital requirements?

16. An investment of Rs.10,000 (having scrap value of Rs.500) yields the following returns:

Year	1	2	3	4	5
CFAT	4,000	4,000	3,000	3,000	2,500

The cost of capital is 10%. Is the investment desirable? Discuss it according to NPV method assuming the P.V. factors for 1st, 2nd, 3rd, 4th and 5th year. – 0.909, 0.826, 0.751, 0.683 and 0.620 respectively.

17. The earnings per share of a company are Rs.12. The cost of equity capital is 10%. The rate of return on investment is 15%. Compute the market price per share under Waltor's model if payout is (a) 50% (b) 75%

18. Martin Ltd. has the following capital structure:

	Rs.
25,000 Equity shares of Rs.10 each	2,50,000
2,000 9% Pref. Shares of Rs.100 each	2,00,000
3,000 10% Debentures of Rs.100 each	3,00,000

The company's EBIT is Rs.1,25,000. Calculate the financial leverage assuming that the company is in 40% tax bracket.

19. Rose Ltd. is engaged in customer retailing. You are required to estimate its working capital requirements from the following data:

Project annual sales	Rs.9,00,000
Percentage of net profit to cost of sales	20%
Average credit allowed to debtors	1 month
Average credit allowed by creditors	2 $\frac{1}{2}$ months
Average stock carrying (in terms of sales requirements)	2 months
Add 10% to allow for contingencies.	

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

Answer any **TWO** questions

20. Discuss the role of Finance manager in changing scenario.

21. X Ltd. is considering investing in a project requiring a capital outlay of Rs.8,00,000. Forecast for annual net incomes after depreciationbut before tax are as follows:

Year	1	2	3	4	5
Profit (Rs.)	4,00,000	4,00,000	3,20,000	3,20,000	1,60,000

Depreciation may be taken as 20% on original cost and taxation at 50% of net income.

You are required to evaluate the project according to each of the following methods:

(a) Pay back method , (b) Rate of return on average investment method and (c) NPV method taking cost of capital as 10%.

22. A company was recently formed to manufacture a new product. It has the following capital structure:

		Rs.
(i)	9% Debenture	10,00,000
(ii)	7% Preference shares	4,00,000
(iii)	Equity shares(48,000 shares)	16,00,000
(iv)	Retained earnings	10,00,000
		40,00,000

The market price of equity share is Rs.80. A dividend of Rs.8 per share is proposed. The company has marginal tax rate of 50% and shareholder's individual tax rate is 25%. Compute after tax weighted average cost of capital of the company.

23. Godrej company sells goods in the home market and earns a gross profit of 20% on sales. Its annual figures are as follows. Sales Rs.3,00,000; Materials used Rs.1,08,000; Wages Rs.96,000; Manufacturing expenses Rs.30,000; Administrative expenses Rs.1,20,000; Depreciation Rs.12,000; Selling expenses Rs.18,000.

Additional information:

(a) Credit given by suppliers 2 months
(b) Credit allowed to customers 1 month
(c) Lag in payment of wages $\frac{1}{2}$month
(d) Lag in payment of administrative expenses 1 month.
(e) Selling expenses are paid quarterly in advance.
(f) Raw materials and finished goods are in stock for 1 month
(g) Cash balance estimated to be maintained at Rs.30,000.

You are required to prepare a statement of working capital requirement.