SHRIMATHI DEVKUNVAR NANALAL BHATT VAISHNAV COLLEGE FOR WOMEN (AUTONOMOUS)

(Affiliated to the University of Madras and Re-accredited with 'A+' Grade by NAAC)

Chromepet, Chennai — 600 044.

M.Com. - END SEMESTER EXAMINATIONS APRIL - 2022

SEMESTER - IV

20PCOCT4013 - Advanced Financial Management

Total Duration : 3 Hrs. **Total Marks : 60**

Section A

Answer any **SIX** questions $(6 \times 5 = 30$ Marks)

1. Explain the fundamental principles of financial management.

2. Compute the values of debentures.

Particulars	**A**	**B**	**C**
Face Value of debenture (Rs.)	1,000	1,000	1,000
Annual interest rate	15%	15%	12%
Expected interest rate	15%	12%	15%
Maturity period	5 years	5 years	5 years

3. From the following balances you are required to calculate cash from operations:

Particulars	**December 31**	
	1997 (Rs.)	**1998 (Rs.)**
Debtors	50,000	47.000
Bills receivable	10,000	12,500
Creditors	20,000	25,000
Bills Payable	8,000	6,000
Outstanding Expenses	1,000	1,200
Prepaid Expenses	800	700
Accrued Income	600	750
Income received in Advance	300	250
Profit made during the year	----	1,30,000

4. 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. Find the operating leverage in each of the following three situations:
   a) When fixed costs are Rs.400
   b) When fixed costs are Rs.1,000
   c) When fixed costs are Rs.1,200

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5. From the following information, extracted from the books of a manufacturing company, compute the operating cycle in days and the amount of working capital required:

Period covered	365 days
Average period of credit allowed by suppliers	16 days
(Rs. in '000)	
Average Total of Debtors Outstanding	480
Raw Material Consumption	4,400
Total Production Cost	10,000
Total Cost of Sales	10,500
Sales for the year	16,000
Value of Average Stock maintained:	
Raw Material	320
Work-in-progress	350
Finish Goods	260

6. X Ltd. is expecting an annual EBIT of Rs.1.00 lakh. The company has Rs.4.00 lakhs in 10% debentures. The equity capitalisation rate is 12%. The company decides to raise Rs.1.00 lakh by issue of 10% debentures and use the proceeds thereof to redeem equity shares. You are required to solve the total value of the firm and also the overall cost of capital.

7. The earning per share of a company is Rs. 16. The market capitalisation rate applicable to the company is 12.5%. Retained earnings can be employed to yield a return of 10%. The company is considering a pay out of (a) 25%, (b) 50% and (c) 75%. Describe which of these would maximise the wealth of shareholders as per Walter's model?

8. A Ltd. has an expected return of 22% and Standard deviation of 40%. B Ltd. has an expected return of 24% and Standard deviation of 38% A Ltd. has a beta of 0.86 and B Ltd. a beta of 1.24. The correlation coefficient between the return of A Ltd. and B Ltd. is 0.72. The Standard deviation of the market return is 20%. Recommend:
   i. Is investing in B Ltd. better than investing in A Ltd.?
   ii. If you invest 30% in B Ltd. and 70% in A Ltd., what is your expected rate of return and portfolio Standard deviation?
   iii. What is the market portfolios expected rate of return and how much is the risk-free rate?
   iv. What is the beta of Portfolio if A Ltd's weight is 70% and B Ltd's weight is 30%?

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Section B

Part A

Answer any **TWO** questions $(2 \times 10 = 20$ Marks)

9. Illustrate some of the problems that financial managers in a developing country like India have to grapple with.

10. Company has the following capital structure:

10,000 Equity shares of Rs.10 each	Rs. 1,00,000
2,000 10% Pref. shares of Rs.100 each	Rs. 2,00,000
2,000 10% Debentures of Rs.100 each	Rs. 2,00,000

Determine the EPS for each of the following levels of EBIT: (i) Rs.1,00,000; (ii) Rs.60,000 and (iii) Rs.1,40,000. The company is in 50% tax bracket.
Calculate the financial leverage taking EBIT level under (i) base

11. A Ltd. has a share capital of Rs.1,00,000 divided into shares of Rs.10 each. It has 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 (EBIT) are Rs.40,000 p.a. You are required to ascertain the effect of each of the above modes on financing of the earnings per share (EPS) presuming:
    (a) EBIT continues to be the same even after expansion.
    (b) EBIT increases by Rs.10,000.

12. XYZ Corporation is considering relaxing its present credit policy and is in the process of evaluating two proposed policies. Currently, the ratio of 4 times a year. The current level of loss due to bad debts is firm has annual credit sales of Rs.50 lakhs and accounts receivable turnover in new accounts receivable. The company's variable costs are 70% of the Rs.1,50,000. The firm is required to give a return of 25% on the Investment selling price. Given the following information, evaluate which is the better option?

Particulars	**Present Policy**	**Policy Option I**	**Policy Option II**
Annual credit sales Accounts receivable**(Rs.)**	50,00,000	60,00,000	67,50,000
Turnover ratio	4 times	3 times	2.4 times
Bad debts losses **(Rs.)**	1,50,000	3,00,000	4,50,000

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Part B

Compulsory question $(1 \times 10 = 10$ Marks)

13. A company belongs to a risk-class for which the appropriate capitalisation rate is 10%. It currently has outstanding 25,000 shares selling at Rs.100 each. The firm is contemplating the declaration of dividend of Rs.5 per share at the end of the current financial year. The company expects to have a net income of Rs.2.5 lakhs and has a proposal for making new investments of Rs.5 lakhs. Justify that under the M-M assumptions, the payment of dividend does not affect the value of the firm.

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