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 - 2023
SEMESTER - IV
20PCOCT4013 - Advanced Financial Management

Total Duration : 2 Hrs. 30 Mins. Total Marks : 60

Section B

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

1. Explain the nature and importance of Financial Management.
2. Explain the concept of Budgeting and the type of budgets normally prepared by big industrial organization.
3. The annual cash requirement of Kavin Ltd., is Rs.1,00,000. The company has marketable securities in Lot sizes of Rs.5,000, Rs.10,000, Rs.20,000, Rs.25,000 and Rs.50,000. Cost of conversion of marketable securities per lot is Rs.100. The company can earn 5% annual yield on its securities. You are required to prepare a table indicating which lot size will have to be sold by the company? Also show the economic lot size can be obtained by Baumol model.
4. The following information is available in respect of a firm:
Capitalisation rate = 10%, Earning per share = Rs.50 Assumed rate of return on investment: (i) 12%, (ii) 8%, (iii) 10%. Show the effect of dividend policy on market price of shares applying Walter's formula when dividend payout ratio is (a) 0%, (b) 20%, (c) 40%.
5. Explain the factors which determine the capital structure of a firm.
6. Statement of financial position of Mr.Arun is given below.

Liabilities	**Jan 2020**	**Dec 2020**	**Asset**	**Jan 2020**	**Dec 2020**
Account payable	29,000	25,000	Cash	40,000	30,000
capital	7,39,000	6,15,000	Debtors	20,000	17,000
			Stock	8,000	13,000
			Building	1,00,000	80,000
			Other fixed assets	6,00,000	5,00,000
	7,68,000	**6,40,000**		**7,68,000**	**6,40,000**

The following additional information is also available:
a. There were no drawings.
b. There were no purchases or sales of either building or other fixed assets. Prepare a statement of cash flow.

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7. Explain the methods of forecasting the working capital requirements.
8. Ram Raj Ltd. has a equity share capital of Rs.5,00,000 Divided into shares of Rs.100 each. It wishes to
   Issue of common stock.
   a. Issue of common stock for Rs.2,00,000 plus 10% debt for Rs.2,00,000.
   b. Issue of 10% debt.
   c. Issue of 10% preference shares for Rs.2,00,000 and 10% debt for Rs.2,00,000.
   The company's existing earnings before interest and tax are Rs.4,00,000. The rate of corporate tax is 50%. Determine the earnings per share of each plan.

Section C

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

9. (a) A company expects a net income of Rs.80,000. It has Rs.2,00,000; 8% Debentures. The equity capitalization rate of the company is 10% calculate the value of the firm and overall capitalization rate according to the Net Income Approach
   (ignoring income –tax).
   (b) If the debenture debt is increased to Rs.3,00,000; what shall be the value of the firm and the overall capitalization rate?
10. A company has an investment opportunity costing Rs.40,000 with the following expected net cash flow after taxes and before depreciation.

Year	1	2	3	4	5	6	7	8	9	10
Net Cash Flow (Rs.)	7,000	7,000	7,000	7,000	7,000	8,000	10,000	15,000	10,000	4,000

   Using 10% as the cost of capital, determine the following:
   (a) Pay back period.
   (b) Net present value at 10% discount factor.
   (c) Profitability index at 10% discount factor.
   (d) Internal rate of return with the help of 10% and 15% discount factor.
   Note: Discount Rate.

Year	1	2	3	4	5	6	7	8	9	10
PV of Re1.@10%	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386
PV of Re1.@15%	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327	0.284	0.247

11. Examine investment timing problem handled in investment decision.
12. Distinguish between accounting Profits and Cash Flow. Justify cash flows considered to be a better measure of economic viability as compared to accounting profits?

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

13. The earnings per share of company's are Rs.8 and the rate of capitalization applicable to the company is 10%. The company has before it an option of adoption a payout ratio of 25% or 50% or 75%. Using Walter's formula of dividend payout, compute the market value of the company's share of the productivity of retained earning is (i) 15% (ii) 10% and (iii) 5%.

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