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 - 2024
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. Enumerate the aims of finance function.

2. Mr.X deposits Rs.1,000 at the end of every year for 4 years and the deposit earns a compound interest of 10% per annum. Calculate the amount at the end of 4th year?

3. The EPS of Bhargavi Ltd., is Rs.40. The capitalization rate is 15% and rate of interest is 18%, using Walter's Model. Compute:-
   i)   The optimum payout
   ii)   The market price of the share at this payout
   iii) The market price of the share if payout is 40%
   iv)   The market price of the share if pay out is 80%

4. Bring out the difference between Internal rate of return and Net present value method.

5. Calculate the net present value for a small sized project requiring an initial investment of Rs.20,000 and which provides a net cash inflow of Rs.6,000 each year for six years. Assume the cost of funds to be 8% p.a. and that there is no scrap value. (Assume the present value of annuity of Re.1 for 6 years @ 8% is Rs 4.623)

6. Discuss the various methods used for risk factor in capital budgeting decision.

7. A company belonging to a risk class with 10% capitalisation rate is thinking to declare a dividend of Rs.4 per share at the end of the current year. Its total number of equity shares are 60,000. The current market price of an equity share is Rs.80. Compute the value of an equity share, if dividends are paid using MM model.

8. State the different forms of Dividend.

Section C

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

9. The following is the capital structure of XYZ ltd.,

Source	Amount (Rs.)	Interest Rate/ Dividend
Equity Share Capital	25,000	11%
Preference Share Capital	20,000	10%
Retained Earnings	10,000	8%
Debentures	20,000	10%

Tax rate is 50%. Calculate the overall cost of capital.

10. Discuss the factors determining Capital Structure.

11. Calculate the Internal Rate of Return of Project X whose Cost is Rs.11,000 and cash inflows during 4 years as,
Year 1 Rs.6,000; Year 2 Rs.2,000; Year 3 Rs.1,000 and Year 4 Rs.5,000.

12. Razak Ltd., has a capital structure consisting of equity capital only. It has 50,000 equity shares of Rs.10 each. Now the company wants to raise a fund for Rs.1,25,000 for its various investment purposes after considering the following three alternative methods of financing.
    (i)   If it issues 12,500 equity shares of Rs.10 each
    (ii) If it borrows a debt of Rs. 1,25,000 at 8% interest and
    (iii) If it issues 1,250, 8% preference shares of Rs.100 each

    Show the effect of EPS under various methods of financing if EBIT (after additional investment) are Rs.1,56,250 and rate of taxation is 50%.

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

13. A company is considering a new machine. The net cash flows have been estimated as follows:

	Year 1	Probability	Year 2	Probability
Net cash flows	Rs.20,000	0.4	Rs.16,000	0.5
			24,000	0.5
Net cash flows	Rs.24,000	0.6	Rs.32,000	0.4
			40,000	0.6

The cost of the machine is Rs.40,000 with an estimated life of two years and the cost of capital of the firm is 12%. Use a decision tree approach to recommend whether the equipment should be purchased or not?

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