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M.Com. I Semester Degree Examination, April/May - 2023

COMMERCE

Advanced Financial Management

(CBCS)

Time : 3 Hours — Maximum Marks : 70

Note : *Answer **any five** of the following questions with question No. **1 (Q1) Compulsory.** Each question carries **equal** marks.*

1. (a) Discuss the emerging role of financial manager in India. **8**

(b) Mr. Y makes a deposit of sum of ₹ 1,00,000 in a bank which pays 10% interest compounded annually for 5 years. You are required to find out the amount to be received by him after 5 years. **3**

(c) Mr. X wants to find the present value of ₹ 20,000 to be received 5 years from now, assuming 10 percent rate of interest. **3**

2. A company is considering a proposal to purchase a new equipment. The equipment would involve a cash outlay of ₹ 5,00,000. The expected life of the project is 5 years without salvage value. The company is allowed to charge depreciation on straight line basis for income-tax purpose. The estimated before tax cash inflows (earnings before depreciation and Tax) are given below : **14**

Year	1	2	3	4	5
Before tax cash inflows (₹)	1,80,000	2,20,000	1,90,000	1,70,000	1,40,000

The applicable income tax rate to the company is 35%. The opportunity cost of capital of the company is 10%.

You are required to calculate.

(a) Payback period

(b) Net Present value

(c) Internal rate of return

(d) Discounted payback period

3. (a) What is meant by cost of capital ? Explain the components of cost of capital. **6**

(b) A company expects a net income of ₹ 80,000. It has ₹ 2,00,000, 8% debentures. The equity capitalisation rate of the company is 10%. Calculate the value of the firm and overall capitalisation rate according to the Net Income approach (Ignoring income tax). **8**

(i) If the debenture debt is increased to ₹ 3,00,000, what shall be the value of the firm and overall capitalisation rate ?

(ii) If the debenture debt is decreased to ₹ 1,00,000, what shall be the value of the firm and overall capitalisation rate ?

4. (a) Gowtham Ltd. produces a product which has a monthly demand of 4,000 units. The product requires a component X which is purchased at ₹ 20. For every finished product, one unit of the component is required. The ordering cost is ₹ 120 per order and the holding cost is 10% p.a. **7**

You are required to calculate :

(i) Economic order quantity

(ii) If the minimum lot size to be supplied is 4,000 units, what is the extra cost, the company has to incur ?

(b) Explain various factors influencing on working capital. **7**

5. The earnings per share of a company are ₹ 8 and the rate of capitalization applicable to the company is 10%. The company has before it an option of adopting a payment ratio of 25% (or) 50% (or) 75%. Using walter's formula of dividend pay-out, compute the market value of the company's share of the productivity of retained earnings (i) 15% (ii) 10% (iii) 5%. **14**

6. The following information relates to XYZ Ltd : **14**

Cost of the project	₹ 15,00,000
Life of Project	10 years
Annual cash inflows	₹ 3,00,000 p.a.
Discounting rate	10% p.a.

Determine the NPV of the project.

Analyze the sensitivity of each variable considering 10% change :

(a) Increase in cost of the project by 10%

(b) Decrease in annual cash inflows by 10%

(c) Increase in discounting rate by 10%

(d) Life of project reduce by 10%

Also analyses that to which factor among the above four, the project is most sensitive. (10 years PVF@10% = 6.145, 10 years PVF@11% = 5.889 and 9 years PVF@10%=5.759)

7. (a) "A firm should follow a policy of very high dividend pay-out". Do you agree ? Why ? **7**

(b) Prepare an estimate of working capital requirements from the following information of a trading concern. **7**

(i) Projected annual sales-1,00,000 units.

(ii) Selling price ₹ 8 per unit.

(iii) Percentage of profit 25%.

(iv) Average Credit period allowed to debtors - 8 weeks.

(v) Average Credit period allowed to creditors - 4 weeks.

(vi) Average stock holding (in terms of sales) - 12 weeks.

(vii) Allow 10% for contingencies.

8. Write a note on :

(a) Weighted average cost of capital **5**

(b) Bonus shares Vs. Stock split **5**

(c) Capital rationing **4**

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