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21COM1C5L

M. Com. I Semester Degree Examination, April/May - 2024

COMMERCE

Advanced Financial Management

(NEP)

Time : 3 Hours | Maximum Marks : 70

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

1. (a) Explain "Wealth maximisation" and "Profit maximisation" objectives of Financial Management. **7**

(b) A borrower offers 16 percent nominal rate of interest with quarterly compounding. What is the effective rate of interest ? **7**

2. Phoenix Company is Considering two mutually exclusive investments, Project P and Project Q. The expected cash flows of these projects are as follows :

Year	**0**	**1**	**2**	**3**	**4**	**5**
Project P (Rs.)	(1000)	(1200)	(600)	(250)	2000	4000
Project Q (Rs.)	(1600)	200	400	600	800	100

(a) Construct the NPV Profiles for Projects P and Q.

(b) What is each project's MIRR if the cost of capital is 12 percent ? **14**

3. (a) Discuss the Marginal Cost of Capital. **7**

(b) ABC Company's equity share is quoted in the market at Rs. 25 per share currently. The company pays a dividend of Rs. 2 per share and the investor's market expects a growth rate of 6% per year.

You are required to :

(i) Calculate the company's cost of equity capital.

(ii) If the company issues 10% debentures of face value of Rs. 100 each and realise Rs. 96 per debenture while the debentures are redeemable after 12 years at a premium of 12%. Calculate cost of debenture using YTM ? Assume Tax Rate to be 50%. **7**

4. Define Working Capital Management. Discuss the features and importance of WCM. **14**

5. With the help of following figures calculate the market price of a share of a company by using :

(i) Walter's formula

(ii) Dividend growth model (Gordon's formula)

Earnings per share (EPS)	Rs. 10
Dividend per share (DPS)	Rs. 6
Cost of Capital (Ke)	20%
Internal rate of return on investment	25%
Retention ratio	40%

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6. As a part of the strategy to increase sales and profits, the sales manager of a company proposes to sell goods to a group of new customers with 10% risk of non-payment. This group would require one and a half months credit and is likely to increase sales by Rs. 1,00,000 p.a. Production and selling expenses amount to 80% of sales and the income-tax rate is 50%. The company's minimum required rate of return (after tax) is 25%. Should the sales manager's proposal be accepted ? Analyse. Also compute the degree of risk of non-payment that the company should be willing to assume if the required rate of return (after tax) were (i) 30%, (ii) 40% and (iii) 60%. **14**

7. The management of Royal Industries has called for a statement showing the working capital to finance a level of activity of 1,80,000 units of output for the year. The cost structure for the company's product for the above mentioned activity level is detailed below :

	Cost per unit (Rs.)
Raw material	20
Direct labour	5
Overheads (including depreciation of Rs. 5 per unit)	15
Profit	40
Selling price	10
	50

Additional information :

(a) Minimum desired cash balance is Rs. 20,000.

(b) Raw materials are held in stock on an average for two months.

(c) Work-in-progress (assume 50% completion stage) will approximate to half a month's production.

(d) Finished goods remain in warehouse on an average for a month.

(e) Suppliers of materials extend a month credit and debtors are provided two months credit; Cash sales are 25% of total sale.

(f) There is a time-lag in payment of wages of a month; half a month in the case of overheads.

From the above facts you are required to prepare a statement showing working capital requirements. **14**

8. Write notes on :

(a) NPV **5**

(b) RoI and RoE **5**

(c) EOQ **4**

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