Seat No: ________

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Post-Graduate Department of Commerce (M. Com)

M.Com Part-I, Semester-I, Semester End Examination, January 2023

COTC-401: Advanced Financial Management (OA - 35)

Duration: 2 Hours **Max Marks: 40**

Instructions:

1. *This paper consists of SEVEN questions carrying Equal marks.*
2. *Question No.1 consists of 5 Compulsory questions of 2 marks each.*
3. *Answer any THREE questions from question 2,3,4,5,6 and 7.*
4. *Each question carries 10 marks. Figures to the right indicate marks.*

Q.1. Answer the following: (5 × 2 = 10)

a) What do you understand by the Modern Approach to Finance Function?

b) State the Assumptions of the Net Income (NI) Approach of Capital Structure.

c) How is preparation of Cash Budget useful to Finance Manager? Explain any two points.

d) What do you understand by Scenario Analysis?

e) Differentiate between: Cash Dividend and Stock Dividend.

Q.2. (A) Explain how Finance is interrelated to:

a. Top Management

b. Marketing (5)

(B) What do you understand by Working Capital Management? Explain any five factors affecting the working capital requirements of a Firm. (5)

Q.3. (A) What is an Optimum Capital Structure? Explain any five factors affecting the Capital Structure. (5)

(B) What is Credit Policy? Discuss the Procedure of Evaluation of Credit Policy. (5)

Q.4.(A) A company is examining a Project whose estimated annual cash flows are Rs.15,000. The Certainty Equivalent Quotients (CEQ) of cash flows of each year and investment is given below:

Year	Cash flows	CEQ
0	-25000	1.0
1	15000	0.8
2	15000	0.7
3	15000	0.6
4	15000	0.5

The risk free rate of return is 10%. Evaluate the project using Net Present Value and Profitability index of risk. (5)

(B) 'The financial manager must take careful decisions on how the profit should be distributed among shareholders.' What do you understand by Dividend Decisions? Elaborate on any five Factors influencing Dividend Decision. (5)

Q.5.(A) Following is the data pertaining to three firms. Assume that the number of units sold by each firm is 7000.

Firms	A	B	C
Selling Price per unit	40	52	60
Variable Cost per unit	12	32	30
Fixed Cost	90,000	50,000	2,50,000

Calculate Degree of Operating Leverage and Financial Leverage for the three firms A, B and C.

(5)

(B) 'The primary goal of financial management is to maximize profit. However, Wealth Maximization goal is considered a superior goal to profit maximization goal.' Answer the following questions:

a. Why Profit Maximization goal is criticized under Financial Management?
b. Explain why Wealth maximization goal is considered a superior goal to profit maximization?

(5)

Q.6. (A) A company has to raise additional finance of Rs.10,00,000 for meeting its investment plans. The following are the further details:

a) 10% Debentures – Rs.3,00,000

b) 14% Preference shares – Rs. 4,00,000

c) Expected Dividend of next year – Rs.8 per share

d) Growth rate in dividends – 10%

e) Market price of equity – Rs.135

f) Tax rate – 35%

g) Retained Earnings – Rs.3,00,000

You are required to calculate the Cost of Debt, Preference, Equity and Retained Earnings. (5)

(B) From the information, Prepare a cash budget.

Assume that 50% of total sales are cash sales. Assets are to be acquired in the month of June worth Rs.25,000. An application has been made to the bank for the grant of a loan of Rs. 30,000 and it is hoped that the loan amount will be received in the month of May. Debtors are allowed one month's credit. Creditors for materials purchased and production overheads grant one month's credit. Salaries and Wages are paid on time. Cash balance in hand on 1st May 2023 is Rs. 72,500

Month	Sales (Rs)	Materials Purchases (Rs)	Salaries & Wages (Rs)	Production Overheads (Rs)
April	88,600	30,600	25,000	6,500
May	1,02,500	37,000	22,000	8,000
June	1,08,700	38,800	23,000	8,200

Prepare cash budget for 2 Months - May and June 2023. (5)

Q. 7. (A) Solve the following:

a. In a manufacturing company, a material is used as follows:

Maximum consumption – 12,000 units per week

Minimum consumption – 4000 units per week

Normal consumption – 8000 units per week

Reorder quantity – 48,000 units

Time required for delivery – minimum: 4 weeks, maximum: 6 weeks

Calculate (a) Reorder level (b) Minimum level (c) Maximum level (d) Average level

b. A company uses a particular material in a factory which is 20,000 units per year. The cost per unit of material is Rs.10. The cost of placing one order is Rs.100 and the inventory carrying cost 20% on average inventory. From the above information, calculate economic order quantity. (5)

(B) From the following information, calculate value of the shares using Gordon's model.

r =12%, EPS = 20

Assume the following situations

Situation	b (%)	K_e (%)
A	90	20
B	70	18
C	60	17
D	50	16
E	30	14

(5)

*********************Best Wishes**********************