

M.Com. (Semester – I) Examination, November 2015
COC 101 : ADVANCED FINANCIAL MANAGEMENT (OA-18)

Duration : 3 Hours

Max. Marks : 60

Instructions : 1) *This paper consists of nine questions.*

2) *Question No. 1 consists of 5 **compulsory** questions of 2 marks each.*

3) *Answer **any** 5 questions from question 2, 3, 4, 5, 6, 7, 8, and 9.*

4) *Figures to the **right** indicate marks.*

1. Answer the following :

(5×2=10)

- What are the accept reject rules for Profitability Index ?
- State and explain two points of difference between Permanent Working Capital and Temporary Working Capital.
- Explain the types of Leverages.
- A company is considering a new project for which the investment data is as follows :

Capital Outlay Rs. 2,00,000

Depreciation 20%

Forecasted annual income before depreciation but after all other charges are as follows :

	Rs.
Year 1	1,00,000
2	1,00,000
3	80,000
4	80,000
5	40,000

On the basis of the available data, evaluate the project under.

- Payback period
- Accounting Rate of Return.



- e) What is the required return on equity in each project under the CAPM ? Interpret the results.

Project	Risk Free Returns	Expected Market Value	β (%)
A	5	7.5	1
B	7	10	1.5
C	5.5	9	0.9
D	4.5	8	1.4

2. a) "Financial Management is more than procurement of funds". Explain the functions of the Finance Manager. 5
- b) Explain the objectives of Financial Management. 5
3. Explain the methods of Capital Budgeting based on time value for money. 10
4. Elaborate the Relevance and Irrelevance Capital Structure Theories. 10
5. a) Explain the Gordon's Model of Dividend. 5
- b) What is Capital Rationing ? How is Project selection done under Capital Rationing ? 5
6. A company plans to manufacture and sell 1,000 units of output per month at a price of Rs. 1,500 each. The ratio of costs to selling price are as follows :

Item	% of Selling Price
Raw materials	30
Packing materials	10
Direct labour	15
Direct expenses	5

Fixed overheads are estimated at Rs. 10,80,000 p.a.

Following norms are maintained for inventory management :

Raw materials	30 days
Packing materials	15 days
Finished goods	200 units
Work in progress (raw materials at 100% and 50% of wages, expenses and overheads)	7 days



Other particulars are given below :

- i) Credit sales represent 80% of total sales and the dealers enjoy 30 working days credit. Balance 20% are cash sales.
- ii) Creditors allow 21 working days credit for payment.
- iii) Lag in payment of overheads and expenses is 15 working days.
- iv) Cash requirement to be 12% of Net working capital.
- v) Working days in a year are taken as 300 days for budgeting purposes.
- vi) Debtors are valued at selling price.

Prepare a working capital requirement forecast for the budget year.

10

7. The earnings per share of a company are Rs. 8 and the rate of capitalisation applicable to the company is 10%. The company has before it an option of adopting 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 if the productivity of Retained Earnings is

- i) 15%
- ii) 10% and
- iii) 5%

10

8. XYZ Ltd. provides you the following information :

Installed capacity	1,50,000 units
Actual production and sales	1,00,000 units
Selling price per unit	Re.1
Variable cost per unit	Re. 0.50
Fixed costs	Rs. 38,000
Funds required	Rs. 1,00,000



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