M.Com. (Semester – I) Examination, April 2015
COC101 : ADVANCED FINANCIAL MANAGEMENT (OA-18)

Duration : 3 Hours Max. Marks : 60

Instructions : *1) This paper consists of **nine** questions carrying **equal** marks.*
*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) **Each** question carries **10** marks. Figures to the **right** indicate **marks**.*

1. Answer the following short questions : **(5×2=10)**

a) Agency Theory

b) Decision Tree

c) Indifference Point.

d) A well established company is in need of Rs. 1,00,000 to finance its increased net working capital requirement. The finance manager of the company believes that its various financial costs and share price will be unaffected by the selection of a particular plan, since a small sum is involved. Debentures will cost 10%, Preference shares 11% and equity shares can be sold for Rs. 25 per share. Tax rate is 35%.

Sources of funds	Plan I (%)	Plan II (%)	Plan III (%)
Equity shares	100	30	50
Preference shares	0	10	20
Debentures	0	60	30

i) Determine the financial Break-even point.

ii) Which plan has greater financial risk ?

e) A project cost Rs. 16,000 and is expected to generate cash flows of Rs. 4,000 each for 5 years. Calculate NPV and IRR.

2. "Wealth Maximization is superior to Profit Maximization as operational criteria". Do you agree ? Explain. 10

3. Explain the meaning and features of Capital Structure. Also explain determinants of Capital Structure. 10

4. Explain the motives for holding inventory and various techniques to minimise inventory cost in an organisation. 10

5. Explain the meaning, relevance, forms and stability of dividend. Also explain corporate dividend behaviour in India. 10

6. Fill in the blanks for each of the following independent cases. Assume that there are no salvage values for the investments and income taxes are to be ignored. 10

Case	Life of the Project (years)	Annual Cash Inflows (Rs.)	Initial Investment (Rs.)	Cost of Capital	IRR	NPV (Rs.)	Profitability Index
A	10	1,00,000	–	–	0.20	–	1.1089
B	13	–	3,00,000	0.16	–	60,000	–
C	–	80,000	3,51,000	0.12	–	–	1.25

7. The following is the capital structure of Simons Company Ltd. as on 31st March current year.

Equity Share : 10,000 shares (of Rs.100 each)	Rs. 10,00,000
10% Preference shares (of Rs.100 each)	Rs. 4,00,000
12% Debentures	Rs. 6,00,000
	Rs. 20,00,000

The market price of the company's share is Rs. 110 and is expected that a dividend of Rs. 10 per share would be declared at the end of the current year. The dividend growth rate is 6%.

i) If the company is in the 50% tax bracket, compute the weighted average cost of capital.

ii) Assuming that in order to finance an expansion plan, the company intends to borrow a fund of Rs.10 lakhs bearing 14% rate of interest, what will be the company's revised weighted average cost of capital ? This financing decision is expected to increase the dividend from Rs.10 to Rs.12 per share. However, the market price of equity share is expected to decline from Rs. 110 to Rs.105 per share. 10

8. The finance manager of a company has formulated various plans to finance Rs.30,00,000 required to implement various capital budgeting projects :

a) Either equity capital of Rs.30,00,000 or Rs.15,00,000, 10% debentures and Rs.15,00,000 equity.

b) Either equity capital of Rs. 30,00,000 or 13% Preference shares of Rs. 10,00,000 and Rs.20,00,000 equity.

c) Either equity capital of Rs. 30,00,000 or 13% preference share capital of Rs. 10,00,000 (subject to dividend tax of 10%), Rs. 10,00,000, 10% debentures of and Rs. 10,00,000 equity; and

d) Either equity share capital of Rs. 20,00,000 and 10% debentures of Rs. 10,00,000 or 13% Preference capital of Rs.10,00,000, 10% debentures of Rs. 8,00,000 and Rs.12,00,000 equity.

You are required to determine the indifference point for each financial plan, assuming 35% corporate tax rate and the face value of equity shares as Rs.100. 10

9. A proforma cost sheet of a company provides the following particulars :

	Amount per Unit (Rs.)
Elements of cost :	
Raw materials	80
Direct labour	30
Overhead	60
Total cost	170
Profit	30
Selling price	200

The following further particulars are available :

Raw materials in stock, on average, one month : materials in process (completion stage, 50%), on average, half a month : finished goods in stock, on average, one month.

Credit allowed by suppliers is one month : Credit allowed to debtors is two months; Average time-lag in payment of wages is 1.5 weeks and one month in overhead expenses; one-fourth of the output is sold against cash; cash in hand and at bank is desired to be maintained at Rs. 3,65,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 1,04,000 units of production. You may assume that production is carried on evenly throughout the year and wages and overheads accrue similarly. For calculation purpose, 4 weeks may be taken as equivalent to a month. Add 10% to your computed figure to allow for contingencies. 10