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M.Com. (CBCS) DEGREE EXAMINATION, APRIL 2023

Second Semester

Commerce – Core

ADVANCED FINANCIAL MANAGEMENT

(For those who joined in July 2021 onwards)

Time : Three hours Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. The word finance comes from the Latin word

   (a) finis (b) finan

   (c) finans (d) finas

2. Profit maximization is concerned with maximization of

   (a) NPV (b) EPS

   (c) EBIT (d) Profit

(b) Hindustan Rubber Ltd. is contemplating to install Air-Conditioner in the factory so as to provide congenial working environment to the workers. The machine would cost Rs. 60,000 It would increase efficiency of workers resulting in annual cost reduction of Rs. 24,000. The machine will be depreciated to zero on a straight line basis over its 10 years life. The company is in the tax bracket of 50%. A 15% tax allowance is available on this investment. The cost of capital of the company is 15%. Should the air-conditioner be installed?

3. Working capital is financed by

(a) long-term sources

(b) short-term sources

(c) either long term or short term

(d) a part out of long term and another part out of short term sources

4. Financial Institutions have been playing an important role in promoting industrial development by providing

(a) term loan (b) cash credit

(c) over draft (d) bills discount

5. All of the following may be used to find the EOQ except

(a) optimal number of days supply to order

(b) number of orders which minimize ordering costs

(c) optimal number of rupees per order

(d) optimal number of orders per year

6. Management of receivables involves balancing the

(a) credit period

(b) collection cost and cost of investment

(c) the cost of carrying receivables and the loss of sales due to a tight credit policy

(d) credit sales and receivable

7. Which of these is not a determinant of dividend policy?

(a) Stability of dividends

(b) Capital market situation

(c) Both (a) and (b)

(d) Availability of liquid cash

8. The value of a firm is independent of its capital structure under

(a) Traditional approach

(b) NOI approach

(c) MM – approach

(d) NI approach

9. Which among these is not a discounted cash flow technique?

(a) Net Present Value

(b) Internal Rate of Return

(c) Payback period

(d) Profitability Index

10. The decision rule under Net Present value method is

(a) NPV > 0 accept (b) NPV < 0 reject

(c) Both (a) and (b) (d) NPV = 0 accept

PART B — (5 × 5 = 25 marks)

Answer ALL questions, choosing either (a) or (b).

1. (a) State the reasons for time preference for money.

Or

(b) Explain the arguments against the objective of profit maximization.

2. (a) Explain the procedure for calculating working capital forecasting.

Or

(b) "The need for funds is not uniformly distributed overtime, the fluctuations in funds requirements are of varying character and different methods are adopted to meet them" – Elucidate.

3. (a) What is the nature of inventory?

Or

(b) How to determine the age of the receivable or the duration of collection period?

14. (a) The following is the capital structure of A Ltd.

	Rs.
Equity share capital (Rs. 10 shares)	2,00,000
Share Premium	3,00,000
Reserves and Surplus	1,50,000
Total Net Worth	6,50,000

The company issues bonus shares to its existing equity shareholders in the ratio of 1 for every 10 at the market price of Rs. 15 per share.

You are required to show :

(i) the new capitalization of the company and

(ii) earnings per share both before and after the bonus issue presuming the net earnings as Rs. 22,000.

Or

(b) The following data are available for X Ltd.

Selling price per unit	Rs. 120
Variable cost per unit	Rs. 70
Total fixed cost	Rs. 2,00,000

(i) What is operating leverage when X Ltd., produces and sells 6,000 units.

(ii) What is percentage change that will occur in the EBIT of X Ltd., if output increases by 5%.

15. (a) Calculate the average rate of return for project X and Y from the following :

	Project X	Project Y
Investment	Rs. 30,000	Rs. 40,000
Net profit for year :		
1	6,000	12,000
2	6,000	10,000
3	4,000	8,000
4	4,000	6,000
5	–	4,000

Or

(b) X Ltd is contemplating the purchase of a machine. The machine 'A' and 'B' are available each costing Rs.1,20,000. The company uses discount rate of 8% for comparing profitability of projects. Earnings after taxation and before depreciation are expected to be as below :

Year	Machine A Rs.	Machine B Rs.
1	30,000	20,000
2	40,000	50,000
3	40,000	40,000
4	30,000	40,000
5	20,000	10,000

Decide which machine would be more profitable. Apply profitability Index Method.

PART C — (5 × 8 = 40 marks)

Answer ALL questions, choosing either (a) or (b).

16. (a) Discuss the arguments in favour and against the objectives of profit maximization.

Or

(b) Explain the significance of finance function.

17. (a) What are the advantages and disadvantages of working capital?

Or

(b) What are the factors determining the sources of finance? Explain.

18. (a) What is factoring? What are the services rendered by factoring?

Or

(b) What is meant by stock levels? What are the various types of stock levels?

19. (a) The following data relate of company XYZ Ltd.

		Rs.
Sales		2,00,000
Less :	Variable expenses (30%)	60,000
	Contribution	1,40,000
Less :	Fixed operating expenses	1,00,000
	EBIT	40,000
Less :	Interest	5,000
	Taxable income	35,000

(i) Using the concept of leverage, by what percentage will taxable income Increase if sales increase by 6%?

(ii) Using the concept of operating leverage by what percentage Will EBIT increase if there is a 10% increase in sales?

(iii) Using the concept of financial leverage, by what percentage will taxable income increase if EBIT increase by 6%?

Or

(b) X Company earns Rs. 5 per share, is capitalized at a rate of 10% and has a rate of return on investment of 18%.

According to Walter's formulae, what should be the price per share at 25% dividend payout ratio? Is this the optimum payout ratio according to Walter? If not, what will be the optimum payout ratio and the price of share at this payout.

20. (a) A choice is to be made between two competing projects which require an equal investment of Rs. 50,000 and are expected to generate net cash flows as under :

	Project I Rs.	Project II Rs.
End of year 1	25,000	10,000
End of year 2	15,000	12,000
End of year 3	10,000	18,000
End of year 4	Nil	25,000
End of year 5	12,000	8,000
End of year 6	6,000	4,000

The cost of capital of the company is 10%.

Which project proposal should be chosen and why? Evaluate the project proposals under Discounted pay back period method.

Or