(6 pages)

S.No. 1219 **P 16 MC 21**

(For candidates admitted from 2016–2017 onwards)

M.Com. DEGREE EXAMINATION, NOVEMBER 2022.

Commerce

ADVANCED FINANCIAL MANAGEMENT

Time : Three hours Maximum : 75 marks

PART A — (10 × 2 = 20)

Answer ALL questions.

1. What is business finance?

2. Give the definition for financial management.

3. Write short notes on Risk and Return.

4. Write short notes on ratio approach.

5. Bring out the meaning of average cost of capital.

6. What do you mean by leverage?

7. State any two forms of capital structure.

8. Bring out any two differences between financial structure and capital structure.

9. Write short notes on Permanent Working Capital.

10. Mention any two internal sources of working capital.

PART B — (5 × 5 = 25)

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

11. (a) Discuss the arguments in favour and unfavour of Wealth Maximization.

Or

(b) What are the drawbacks of Profit Maximization?

12. (a) Narrate the components of Systematic Risk.

Or

(b) Discuss the Internal factors that influencing business risk.

13. (a) Kumar company has sales of Rs. 25,00,000 Variable cost of Rs. 12,50,000 and fixed cost of Rs. 50,000 and debt of Rs. 12,50,000 at 8% rate of interest. Calculate combined leverage.

Or

(b) ABC Ltd. issues 20,000, 8% preference shares of Rs. 100 each at a premium of 5% redeemable after 8 years at par. The cost of issue is Rs. 2 per share. Calculate the cost of preference share capital.

14. (a) There are two firms 'A' and 'B' which are exactly identical except that A does not use any debt in its financing, while B has Rs. 2,50,000, 6% Debentures in its financing. Both the firms have earnings before interest and tax of Rs. 75,000 and the equity capitalization rate is 10%. Assuming the corporation tax is 50%, calculate the value of the firm.

Or

(b) Paramount Products Ltd. wants to raise Rs. 100 lakh for diversification project. Current estimates of EBIT from the new project is Rs. 22 lakh p.a. Cost of debt will be 15% for amounts up to and including Rs. 40 lakh, 16% for additional amounts up to and including Rs. 50 lakh and 18% for additional amounts above Rs. 50 lakh. The equity shares (face value of Rs. 10) of the company have a current market value of Rs. 40. This is expected to fall to Rs. 32 if debts exceeding Rs. 50 lakh are raised. The following options are under consideration of the company.

Option	Debt	Equity
I	50%	50%
II	40%	60%
III	60%	40%

Determine EPS for each option and state which option should the Company adopt. Tax rate is 50%

15. (a) From the following information calculate,

(i) Re-order level

(ii) Maximum level

(iii) Minimum level

(iv) Average level

Normal usage: 100 units per week

Maximum usage: 150 units per week

Minimum usage: 50 units per week

Re-order quantity (EOQ) 500: units

Log in time : 5 to 7 weeks

Or

(b) Prepare an estimate of working capital requirement from the following information of a trading concern.

Projected annual sales	10,000 units
Selling price	Rs. 10 per units
Percentage of net profit on sales	20%
Average credit period allowed to customers	8 Weeks
Average credit period allowed by suppliers	4 Weeks
Average stock holding in term of sales requirements	12 Weeks
Allow 10% for contingencies	

PART C — (3 × 10 = 30)

Answer any THREE questions.

16. Explain the scope of financial management.

17. ABC Ltd. has the following capital structure:

Equity (Expected dividend 12%) Rs. 10,00,000

10% Preference Rs. 5,00,000

8% Loan Rs. 15,00,000

You are required to calculate the weighted avenge cost of capital, assuming 50% as the rate of income tax, before and after tax.

18. A firm is considering an expenditure of Rs. 75 lakhs for expanding its operations. The relevant information is as follows:

Number of existing equity shares =10 lakhs

Market value of existing share = Rs. 100

Net earnings = Rs. 100 lakhs

Compute the cost of existing equity share capital and of new equity capital assuming that new shares will be issued at a price of Rs. 92 per share and the costs of new issue will be Rs. 2 per share.

19. XYZ expects a net operating income of Rs. 2,00,000. It has 8,00,000, 6% debentures. The overall capitalization rate is 10%. Calculate the value of the firm and the equity capitalization rate (Cost of Equity) according to the net operating income approach.

If the debentures debt is increased to Rs. 10,00,000. What will be the effect on volume of the firm and the equity capitalization rate?

20. The following transactions occur in the purchase and issue of a material:

Jan.2	Purchased 4,000 units @ '4 per unit
Jan.20	Purchased 4,000 units @ '4 per unit
Feb.5	Issued 2,000 units
Feb.10	Purchased 6,000 units @ '6 per unit
Feb.12	Issued 4,000 units
Mar.2	Issued 1,000 units
Mar.5	Issued 2.000 units
Mar.15	Purchased 4,500 units @ '5.50 per unit
Mar.20	Issued 3,000 units

From the above, prepare the stores ledger account under LIFO method.

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