(For candidates admitted from 2016–2017 onwards)

M.Com. DEGREE EXAMINATION, NOVEMBER 2023.

Commerce

ADVANCED FINANCIAL MANAGEMENT

Time : Three hours Maximum : 75 marks

PART A — (10 × 2 = 20)

Answer ALL Questions

1. Define financial management.

2. Write short notes on wealth maximization.

3. An amount should be accumulated every year at 10% rate of interest so that it ultimately becomes 1,00,000 after 5 years? (Annuity Table value = 6.105)

4. What is risk and return analysis?

5. Bring out the meaning of cost of capital.

6. What do you mean by leverage?

7. State the meaning of capital structure.

8. Write short notes on optimum capital structure.

9. What do you understand by Semi Variable Working Capital?

10. State the meaning of Working Capital Management.

PART B — (5 × 5 = 25)

Answer ALL Questions, Choosing either (a) or (b)

11. (a) List out the favourable and unfavourable arguments for Profit Maximization.

Or

(b) Write short notes on wealth maximization.

12. (a) Bring out the major risk return areas.

Or

(b) Gopal is required to pay five equal annual payment of 10,000 each in his deposit account that pays 10% interest per year. Find out the future value of annuity at the end of five years.

13. (a) Write short notes on Average and Marginal Cost.

Or

(b) The current market price of the shares of A Ltd. is Rs. 95. The floatation costs are Rs. 5 per share amounts to Rs. 4.50 and is expected to grow at a rate of 7%. You are required to calculate the cost of equity share capital.

14. (a) Briefly explain Net Income (NI) Approach.

Or

(b) Abinaya company Ltd. expresses a net operating income of Rs. 2,00,000. It has Rs. 8,00,000 to 7% debentures. The overall capitalization rate is 10%.

Calculate the value of the firm and the equity captialization rate (or) cost of equity according to the net operating income approach.

15. (a) From the following particulars of ABC Ltd construct a cash budget for the period of four months commencing from Jan. to April 2019.

	Expected sales	Expected purchases
Jan.	1,20,000	96,000
Feb.	80,000	1,60,000
Mar.	90,000	1,62,000
April	80,000	1,80,000

Wages to be paid to workers 10,000 every month. Balance at bank on 1st Jan. 16,000.

Or

(b) From the following information you are required to estimate working capital requirements:

Particulars	Amount
(i) Average amount locked up in stocks:	
Stock of finished products and work in progress	10,000
Stock of stores, materials, etc.	8,000
(ii) Average credit given:	
Local sales —2 weeks credit	1,04,000
Outside the state — 6 weeks credit	3,12,000
(iii) Time available for payment:	
For purchases — 4 weeks	78,000
For wages — 2 weeks	2,60,000

Add 10% to allow for contingencies.

PART C — ($3 \times 10 = 30$)

Answer any THREE questions

16. Discuss the major functions performed by Finance Manager.

17. List down the causes of risk.

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. Two types of material X and Y are used in a factory as follows:

Normal usage 600 units each per week;
Maximum usage 900 units each per week
Minimum usage 300 units each per week;
Reorder quantity X – 4,800 units; Y – 7,200 units
Reorder period X – 4 to 6 weeks; Y 2 to 4 weeks

Calculate for each material

(a) Reorder level

(b) Minimum level

(c) Maximum level and

(d) Average stock level