(7 pages)

S.No. 1183 **P 22 BMCC 13**

(For candidates admitted from 2022–2023 onwards)

M.Com. DEGREE EXAMINATION, NOVEMBER 2022.

Bank Management

ADVANCED FINANCIAL MANAGEMENT

Time : Three hours Maximum : 75 marks

PART A — (20 Marks)

Answer ALL questions.

I. Multiple choice questions: (5 × 1 = 5)

1. The primary goal of financial management is
   (a) To maximise the return
   (b) To minimise the risk
   (c) To maximise the wealth of owners
   (d) To maximise profit

2. The concepts of present value and future value are
   (a) Directly related to each other
   (b) Not related to each other
   (c) Proportionally related to each other
   (d) Inversely related to each other

3. Cost of capital for government securities is also called known as
   (a) Risk free rate of interest
   (b) Maximum rate of return
   (c) Rate of interest on fixed deposits
   (d) None of the above

4. Arbitrage is the level processing technique introduced in
   (a) Net Income approach
   (b) MM approach
   (c) Traditional approach
   (d) Operating approach

5. Working capital management is managing
   (a) Short term assets and liabilities
   (b) Long term liabilities
   (c) Long term assets
   (d) Only short term assets

II. Fill in the blanks: (5 × 1 = 5)

6. Traditional approach confines finance functions only to ———— funds.

7. ———— Risk cover the risk of market, interest rate risk and purchasing power risk.

8. A highly leveraged firm is ———— risk than its peers.

9. ———— is the portion of divisible profits that is distributed to the share holders.

10. Credit policy of every company is largely influenced by ———— and ————

III. Answer ALL questions: (5 × 2 = 10)

11. Define the term financial management.

12. What is financial risk?

13. What do you mean by optimum capital structure?

14. What is meant by Historical cost?

15. What do you mean by lock-box system?

PART B — (5 × 5 = 25)

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

16. (a) What are the objectives of financial management?

Or

(b) State briefly the significance of financial management.

17. (a) A bond has a face value of Rs.1,000. It has a 10% coupon rate and a maturity period of 5 years. What would be the price of the bond, if the yield declines to 8%?

Or

(b) A company has equity shares of the face value Rs.10. It just paid on annual dividend of Rs.5. The dividend is expected to grow at 9% per annum perpetually. The company is quite consistent. It has an equity capitalisation rate of 15%. What is the intrinsic value of the shares?

18. (a) Sakthi Ltd. issued 20,000 8% debentures of Rs.100 each on 1st April 2019. The cost of issue was Rs.50,00. The company's tax rate is 35%. Determine the cost of debentures (before as well as after tax) If they were issued at a premium of 10%.

Or

(b) Ascertain financial leverage from the information given below:

Net worth : Rs. 20,00,000

Debt/Equity ratio : 3:1

Interest rate = 10%

Operating profit = Rs. 18,00,000

19. (a) X Ltd has an EBIT of Rs. 4,50,000. The cost of debt is 10% and the outstanding debt is Rs. 12,00,000. The overall capitalisation rate (k_0) is 15%. Calculate the total value of the firm and equity capitalisation rate under No1 approach.

Or

(b) The following data relates to ram Ltd.

Earning per share = Rs. 14

Capitalisation rate = 15%.

Rate of return = 20%.

Determine the market price per share under Gordon's model if retention is

(i) 40%

(ii) 60%

20. (a) Find out the economic order quantity from the following particulars:

Annual usage : Rs.1,20,000

Cost of placing and receiving one order Rs.60

Annual carrying out = 10% of inventory value.

Or

(b) What are the sources of working capital?

PART C — (3 × 10 = 30)

Answer any THREE questions.

21. Explain the decision involved in financial management.

22. A company paid a dividend of Rs.2. It is expected to grow at 6% per annum perpetually. What is the value of the share when:

(a) Equity capitalisation rate is 14%

(b) Equity capitalisation rate is 15%

(c) When growth rate is 7% and equity capital is 15%

23. Kannan Ltd issued 60,00 15% irredeemable preference share of Rs.100 each. The issue expenses were 60,000. Determine the cost of preference capital if shares issued

(a) At par

(b) At a premium of 10% and

(c) At a discount of 5%.

24. Two firms K and V are identical except in the method of financial. Firm K has no debt, while V has Rs.3,00,000 8%. Debentures in financing. Both the firms have a net operating income (EBIT) of Rs.1,20,000 and equity capitalisation rate of 12%. The corporate tax rate is 35%. Calculate the value of the firm using MM approach.

25. From the following information, prepare a statement showing the estimated working capital requirements:

Budgeted Sales – Rs. 2,60,000 p.a.

Analysis of cost and profit of each unit

	Rs.
Raw materials	3
Labour	4
Overhead	2
Profit	1
Selling price per unit	10

it is estimated that

(a) Pending use, raw materials are carried in stack for three weeks and finished goods for two weeks.

(b) Factory processing will take 3 weeks

(c) Suppliers will give five weeks credit and customers will require eight weeks credit.

It may be assumed that production and overheads assure evenly throughout the year.

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