M.Com (Semester I) Examination, January 2021

COC 121: ADVANCED FINANCIAL MANAGEMENT (OA-18 A)

Duration: 2 Hours Max. Marks: 60

Instructions: 1) This paper consists of **nine** questions
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) Figures to the **right** indicate **marks.**

Q1) Answer the following questions (5x2=10)

a) Explain any two methods of Valuation of Shares.

b) Explain the concept of home-made leverage in Arbitrage Process.

c) Zoom Technologies Ltd. issued 1,00,000 14% Debentures of Rs.100 each, redeemable after 5 years at Rs.110 each. The commission payable to underwriters and brokers is 10%. Assuming a tax rate of 45%, what will be the cost of Debt?

d) There are two firms P and Q which are identical except that P does not use any debt in its capital structure while Q has Rs.8,00,000,9% debentures in its capital structure. Both the firms have earnings Before Interest and Tax (EBIT) of Rs.2,60,000 p.a. and the capitalisation rate is 10%.
Assuming the corporate tax of 30%, Calculate the value of these firms according to MM Hypothesis.

e) A project requires an investment of Rs. 40,000 and the expected cash flows are: 1st year: Rs. 12,000, 2nd year: Rs. 4,000, 3rd year: Rs.9,000, 4th year:18,000 and 5th year: 7,800. The cost of capital is 10%. Compute the Profitability Index and the Payback Period.

Q2) The cost sheet of Royal Industries Ltd. provides the following data. (10)

Particulars	Cost per unit
Raw Material	Rs.50
Direct Labour	Rs.20
Overheads (including depreciation of Rs.10)	Rs.40
Total Cost	Rs.110
Profit	Rs. 20
Selling Price	Rs.130

Average Raw material in stock is for one month. Average material in work - in- progress is for half month .Credit allowed by suppliers : one month , credit allowed to debtors : one

month. Average time lag in payment of wages:10 days, average time lag in payment of overheads 30 days.25% of the Sales are on cash basis. Cash balance is expected to be Rs.1,00,000. Finished goods lie in the warehouse for one month.
You are required to prepare a statement of the working capital needed to finance a level of the activity of 54,000 units of output. Production is carried on evenly throughout the year and wages and overheads accrue similarly. State your assumptions, if any, clearly.

Q3 a) From the following financial data of Company A and Company B ,prepare their Income Statements (5)

Particulars	Company A	Company B
Sales	-	Rs.1,05,000
Variable Cost	Rs.56,000	60% of Sales
Fixed Cost	Rs.20,000	-
Interest Expenses	Rs.12,000	Rs. 9,000
Financial Leverage	5:1	-
Operating Leverage	-	4:1
Income Tax Rate	30%	30%

b) Good Luck Ltd. has an investment proposal that requires an investment outlay of Rs. 20,00,000. The following information is available: (5)

YEAR 1		
Possible events	Cash flows	Probability
A	11,00,000	0.4
B	13,00,000	0.6

Event	11,00,000		13,00,000	
	CFAT	Probability	CFAT	Probability
A	9,00,000	0.6	17,00,000	0.5
B	12,00,000	0.4	21,00,000	0.5

The company expects a 14% rate of return. Evaluate the project using Decision Tree Approach and suggest whether investment in the project is profitable or not.

Q4 a) The expected annual net operating income of a company is Rs. 10,00,000. The company has Rs.50,00,000,10% debentures. The overall cost of capital is 12.5%. Calculate the value of the firm and cost of equity according to Net Operating Income (NOI) Approach.

If the company increases the debt from Rs.50,00,000 to Rs.60,00,000, what would be the value of the firm? (6)

b) The Earnings Per Share of a company is Rs.16. The market capitalisation rate applicable to the company is 12.5%. Retained earnings can be employed to yield a return of 10%. The company is considering pay-out of 25%, 50% and 75%. Which of these would maximise the wealth of shareholders as per Walter's Model? (4)

Q5) The management of Sushant Ltd. is considering selecting a machine out of two mutually exclusive machines. The company's cost of capital is 12% and corporate tax rate is 30%. Details of the machines are as follows:

Particulars	Machine I	Machine II
Cost of the Machine	Rs.10,0000	Rs.15,00,000
Expected Life	5 years	6 years
Annual Income before Tax and Depreciation	Rs.3,45,000	Rs.4,55,000

Depreciation is to be charged on straight line basis.
You are required to calculate the Net Present Value and Internal Rate of Return. (10)

Q6 a) "The goal of Profit Maximisation does not provide us with an operationally useful criterion." Comment. (5)
b) Explain how finance is related to the other management functions. (5)

Q7) Explain the Irrelevant Theories of Dividend. (10)

Q8 a) Explain the relevance of Time Value of Money. (5)
b) Enumerate the concept and calculation of Operating Cycle. (5)

Q9) What is Earnings Management? Explain its importance and techniques. (10)

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