CARMEL COLLEGE OF ARTS, SCIENCE AND COMMERCE, NUVEM - GOA

M.Com (Semester – I) Examination, February 2022

COC 121: ADVANCED FINANCIAL MANAGEMENT

Duration: 3 Hours **Max. Marks: 60**

Instructions:

1. This paper consists of Nine Questions carrying Equal Marks.
2. Question No. 1 consists of 5 compulsory questions of 2 marks each.
3. Answer any FIVE questions from Question No. 2, 3, 4, 5, 6, 7, 8 and 9.
4. Figures to the right indicate marks.

Q. 1. Answer the following Questions: **(5x2=10)**

a) Calculate the Degree of Operating Leverage and Degree of Financial Leverage from the following details:
Sales: 1,20,000 units of ₹ 3 per unit.
Variable Cost per unit: ₹ 0.60.
Fixed Operating Cost: ₹ 1,50,000
Interest charges on Debt Capital: ₹ 3,500

b) Explain any two methods of Valuation of Shares.

c) XYZ Ltd. issues 50,000, 8% Debentures of Re.1 each at a premium of 10%. The cost of floating is 2%. The rate of tax is 60%. Calculate the Cost of Debentures before tax and after tax.

d) Explain the Objectives of Cash Management.

e) Explain Net Income Approach.

Q.2. Moonlight Ltd. is considering investment in a project that costs ₹ 4,00,000. The project has an expected life of 5 years and 0 salvage value. The company uses straight line method of depreciation. The company's rate of tax is 40%. The estimated earnings before depreciation and before tax from the projects are as follows: **(10)**

Year	EBIT
1	1,40,000
2	1,60,000
3	2,40,000
4	1,80,000
5	1,20,000

Calculate the Payback Period and Accounting Rate of Return of the Project.

Q.3. a) Explain the relevance of Time Value of Money **(05)**

b) Financing decision is an important management decision. Explain any two finance functions in detail. **(05)**

Q.4. The following is the Capital Structure of a company. **(10)**

	Book Values	**Market Values**
Equity Shares at ₹ 100 each	5,00,000	12,50,000
9% Preference Shares at ₹ 100 each	3,60,000	3,00,000
11% Debentures	4,00,000	4,50,000
Retained Earnings	2,40,000	-
Total:	**15,00,000**	**20,00,000**

The current market price of the company's equity shares is ₹ 200. Last year the company paid dividend at 20% and its dividend is likely to grow 5% every year. The corporate tax rate is 40% and shareholders personal income tax rate is 30%.

Calculate:

1. Cost of Capital for each source.
2. Weighted Average Cost of Capital on the basis of Book Value weights.
3. Weighted Average Cost of Capital on the basis of Market Value weights.

Q.5. From the following budgeted data relating to Sunshine Ltd. Prepare a Cash Budget as per receipts and payment method for 3 months from May to July 2020. **(10)**

2020	**Sales**	**Purchases**	**Wages**	**Overheads**
April	1,20,000	98,000	12,000	15,000
May	90,000	70,000	10,500	13,500
June	1,30,000	65,000	15,000	16,000
July	70,000	80,000	14,000	11,500

Additional Information:

1. 40% Sales is for cash and the remaining amount is realised in the month following that of sales.
2. The creditors for purchases are paid in the month following the month of purchases
3. Wages and Overheads are paid in cash in the same month.
4. Payment of monthly rent amounts to ₹ 5,000.
5. The Bank Passbook shows the balance in the current account as on 30th April 2020 as ₹ 9,000.

Q.6. "Cash Forecasting is a way of estimating the inflow and outflow of cash in an organisation". Explain. **(10)**

Q.7. What is Earnings Management? Explain its importance and techniques. **(10)**

Q.8. a) Explain the importance of Inventory Management. **(04)**

b) Starlight Ltd. is considering two projects Q and R. Each involves an investment of ₹ 60,000. The cash expected inflows and the certainty coefficients are as under: **(06)**

	Project Q		**Project R**	
Year	**Cash Inflow ₹**	**Certainty Coefficient**	**Cash Inflow ₹**	**Certainty Coefficient**
1	45,000	0.8	40,000	0.9
2	40,000	0.7	50,000	0.8
3	40,000	0.9	40,000	0.7

Risk – free cut off rate is 10%. Suggest which of the two projects should be preferred.

Present Value of Re.1 @ 10% of discounting factor is:

Year 1 – 0.909

2 – 0.826

3 – 0.751

Q.9. a) Explain the Modigliani and Miller Approach. **(05)**

b) A company expects a net operating income of ₹ 2,00,000. It has ₹ 6,00,000, 6% Debentures. The overall capitalisation rate is 10%. Calculate the value of the firm and the equity capitalisation rate according to the Net Operating Income Approach.
If the debenture debt is increased to ₹ 8,00,000, what will be the effect on the value of the firm and the equity capitalisation rate? **(05)**

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