(8 pages)

Reg. No. : ....

Code No.: 5526 **Sub. Code: ZKCM 21**

M.Com. (CBCS) DEGREE EXAMINATION, NOVEMBER 2023.

Second Semester

Commerce – Core

ADVANCED FINANCIAL MANAGEMENT

(For those who joined in July 2021-2022)

Time : Three hours Maximum : 75 marks

PART A — (10 × 1 = 10 marks)

Answer ALL questions.

Choose the correct answer :

1. A technique under which a future sum of money is calculated for a given period of time at a specified rate of return is
   (a) Compounding technique
   (b) Discounting technique
   (c) Present value technique
   (d) Doubling technique

2. The financial manager is responsible for ________ in his traditional role.
   (a) Arrangement of funds
   (b) Arrangement and effective utilisation of funds
   (c) Management of cash
   (d) Effective utilisation of funds

3. Operating cycle refers to
   (a) The time duration to convert raw materials into finished goods
   (b) Sale of product either for cash or credit
   (c) Collection of debtors
   (d) The time duration to convert raw materials into cash

4. The credit given to the manufacturers and suppliers of goods in the normal course of business is
   (a) Trade credit (b) Cash credit
   (c) Bank credit (d) Overdraft

5. VED classification of inventories refers to
   (a) Vital, Essential and Desirable inventories
   (b) Vital, Essential and Defective inventories
   (c) Various, Essential and Desirable inventories
   (d) Various, Essential and Defective inventories

6. A firm can follow a strict credit policy in case of products which have
   (a) High demand (b) Low demand
   (c) No demand (d) Effective demand

7. The ratio of Debt-Equity mix is called as
   (a) Capital structure (b) Cost of capital
   (c) Leverage (d) Point of indifference

8. Financial leverage is zero when the
   (a) Firm uses debt (b) Firm uses no debt
   (c) Firm uses equity (d) Firm uses no equity

9. The rate which equates the present value of expected future cash flows with the cost of investments is known as
   (a) Average rate of return
   (b) Internal rate of return
   (c) Discounted rate of return
   (d) Accounting rate of return

10. Techniques used for incorporating risk factor in capital budgeting decision
    (a) Risk adjusted discount rate
    (b) Sensitivity analysis
    (c) Decision tree analysis
    (d) All the above

PART B — (5 × 5 = 25 marks)

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

11. (a) Explain the scope of Financial Management.

    Or

    (b) State the advantages of Financial Forecasting.

12. (a) Explain the concept of Working capital.

    Or

    (b) What are the different sources of short-term finance?

13. (a) Enumerate the various costs of receivables.

    Or

    (b) State the objectives of inventory management.

14. (a) The capital structure of Bata Ltd.. consists of equity share capital of Rs. 1,00,000 and 8% debentures of Rs.50,000. The fixed costs are Rs. 10,000. You are required to calculate the operating and financial leverages when earnings before interest and tax is Rs.20,000.

    Or

(b) The Albert company which earns Rs.5 per share, is capitalised at 10% and has a return on investment of 12%. Using Walter's dividend policy model, determine (i) the optimum payout and (ii) the price of share at this payout.

15. (a) A chemical company is considering investing in a project that costs Rs.5,00,000. The estimated salvage value is zero. Tax rate is 55%. The company uses straight line method of depreciation and the proposed project has cash flows before tax as follows:

Year	1	2	3	4	5
Cash flows before tax (Rs.)	1,00,000	1,00,000	1,50,000	1,50,000	2,50,000

Determine the pay back period.

Or

(b) A firm has the following investment opportunities

Proposals	Initial Outlay	Profitability Index
1	2,00,000	1.15
2	1,25,000	1.13
3	1,75,000	1.11
4	1,50,000	0.08

The available funds are Rs.3,00,000. Which proposal(s) the firm should accept?

PART C — (5 × 8 = 40 marks)

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

16. (a) Explain the role of finance manager.

Or

(b) State the differences between profit maximisation and wealth maximisation.

17. (a) Explain the various methods of calculating the working capital requirements of a business firm.

Or

(b) Explain the factors determining the sources of finance.

18. (a) What are the variables that have to be taken into consideration while formulating a credit policy of a firm?

Or

(b) Discuss the various tools and techniques of inventory control.

19. (a) Two firms X and Y are identical in all respects except in the method of financing. Firm X has no debt while firm Y has Rs.2,00,000, 5% debentures in financing. Both the firms have a Net operating income (EBIT) of Rs.50,000 and equity capitalisation rate of 12.5%. The corporate tax rate is 50%. Calculate the value of the firm using MM approach.

Or

(b) The shares of a leather company are selling at Rs.30 per share. The firm had paid dividend at the rate of Rs.3 per share last year. The estimated growth of the company is approximately 5% per year.

(i) Determine the cost of equity capital of the company

(ii) Determine the estimated market price of the equity shares if the anticipated growth rate of the firm rises to 9% and falls to 3%.

20. (a) Vikas Ltd., is considering the purchase of a new machine which will carry out the operations at present performed by manual labour. Two alternative models under consideration are X and Y. From the following information, ascertain the profitability of the machine using NPV method. Assume a tax rate of 50% of profits and cost of capital at 10%.

	X (Rs.)	Y (Rs.)
Cost of machine	3,00,000	5,00,000
Estimated savings in scrap p.a	20,000	30,000
Additional cost of supervision p.a	24,000	32,000
Additional cost of maintenance p.a	14,000	22,000
Cost of indirect materials p.a	12,000	16,000
Savings in wages:		
Wages per worker p.a	1,000	1,200
Number of workers not required	150	200
Life of the machine (year)	10	12

Or

(b) Reliance Ltd., has given the following possible cash inflows for two alternative projects P and Q. of which one has to selected, Both the projects will require an equal investment of Rs. 10,000. Cost of capital is 10% [P.V factor @ 10% is 0.909]

Possible events	Project P Cash inflows	Project P Probability	Project Q Cash inflows	Project Q Probability
A	8,000	0.10	24,000	0.10
B	10,000	0.20	20,000	0.15
C	12,000	0.40	16,000	0.50
D	14,000	0.20	12,000	0.15
E	16,000	0.10	8,000	0.10

Which project should be selected for investment?