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2024

COMMERCE

Paper : COM-2046

(Advanced Financial Management)

Full Marks : 80

Time : Three hours

The figures in the margin indicate full marks for the questions.

1. Select the most appropriate answer from the choices given in the following questions :

1×5=5

(a) The _____ measures the percentage change in earning per share due to percentage changing in sales.

(i) degree of combined leverage

(ii) degree of working leverage

(iii) degree of operating leverage

(iv) degree of financial leverage

(Fill the gap with appropriate words)

Contd.

(b) Systematic risk under Capital Assets Pricing Model is known as

- (i) diversifiable risk
- (ii) non-diversifiable risk
- (iii) uncomparable risk
- (iv) comparable risk

(Fill the gap with appropriate words)

(c) Composite cost of capital is defined as _____ of each specific type of fund.

- (i) individual cost
- (ii) mutual cost
- (iii) weighted average cost
- (iv) market oriented cost

(Fill the gap with appropriate words)

(d) As per Walter's Model of dividend decision, it is a matter of indifference whether earning is retained or distributed, when

- (i) The rate of return of the firms on investment is higher than cost of equity capital
- (ii) The rate of return on firm's investment is lower than the cost of equity capital
- (iii) Rate of depreciation is lesser than rate of return
- (iv) The rate of return on firm's investment is equal to the cost of equity capital

(e) Which one of the following is correct ?

(i) Inventory turnover ratio

$$= \frac{\text{Cost of good sold}}{\text{Average Inventory at cost}}$$

(ii) Inventory turnover ratio

$$= \frac{\text{Average Inventory at cost}}{\text{Cost of good sold}}$$

(iii) Inventory turnover ratio

$$= \frac{\text{Sale price of good sold}}{\text{Sale price of inventory}}$$

(iv) Inventory turnover ratio

$$= \frac{\text{Cost of good sold}}{\text{Market price of average inventory}}$$

2. Answer the questions in brief : 5×7=35

(a) A. K. Limited issues a new 14% debentures of Rs.1,000 face value to be redeemed after 10 years. The debenture is expected to be sold at 4% discount. It will also involve floatation costs of 2.5% of face value. The company's tax rate is 35%. What would the cost of debt be ? Calculate with short-cut method.

- (b) How is time value of money significant for financial decision making ?
 - (c) Mention the different modes of long-term investment proposal under capital budgeting.
 - (d) What is dividend pay out ratio ? How is it relevant for financial planning ?
2+3=5
 - (e) State the importance of corporate re-structuring.
 - (f) Write the different phases of working capital cycle.
 - (g) How is capital structure different from financial structure ?
3. Critically review the 'profit maximisation' as a goal of financial management. 10

Or

Why is valuation of shares relevant ? State the applicable methods of valuation of share.
5+5=10

4. Analyse the suitability of Capital Asset Pricing Model for determining the Cost of Equity Capital. 10

Or

Critically evaluate Net Income Approach of Capital Structure theory.

5. From the following information determine the benefit cost ratios of the *two* projects and suggest which of the *two* projects should be accepted assuming discount rate of 10% : 10

	<u>Project x</u>	<u>Project y</u>
Initial investment	Rs. 20,000	Rs. 30,000
Estimated life	5 yrs	5 yrs
Scrap value	Rs. 1,000	Rs. 2,000

The profit before depreciation and after taxes (cash flows) are as follows :

	<u>Yr I</u>	<u>Yr II</u>	<u>Yr III</u>	<u>Yr IV</u>	<u>Yr V</u>
	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>	<u>Rs.</u>
Project x	5,000	10,000	10,000	3,000	2,000
Project y	20,000	10,000	5,000	3,000	2,000

[Present value of Re. 1 at 10% discount factor are as follows :

1st yr.	0.909
2nd yr.	0.826
3rd yr.	0.751
4th yr.	0.683
5th yr.	0.621]

Or

- (i) How is permanent or fixed working capital different from temporary or variable working capital ? 5
- (ii) Prepare an estimate of working capital requirement from the following information of a trading concern : 5
- (a) Project annual sale 1,00,000 units
- (b) Selling price Rs 8 per unit
- (c) % percentage of net profit on sale 25%
- (d) Average credit period allowed to customers 8 weeks
- (e) Average credit period allowed by suppliers 4 weeks
- (f) Average stock holding in terms of sales requirement 12 weeks
- (g) Allow 10% contingencies
6. Analyse how dividend is not relevant for valuation of a firm under Modigliani and Miller hypothesis. 10

Or

Eluciate the challenges and opportunities inherent with international acquisition and merger.
