

V Semester B.Com. Examination, November/December 2016
(CBCS) (Fresh)
(2016 – 17 & Onwards)

5.5 : Elective Paper – I : ADVANCED FINANCIAL MANAGEMENT

Time : 3 Hours

Max. Marks : 70

Instruction: Answers should be **completely** written either in **English** or in **Kannada**.

SECTION – A

1. Answer **any 5** questions. **Each** question carries **2** marks. **(5×2=10)**
- What is Sensitivity Analysis ?
 - What do you mean by 'dividend capitalisation' ?
 - State the important sources of fixed capital.
 - What is meant by 'paying float' ?
 - Give the meaning of Venture Capital.
 - If NOI is ₹ 150 crore, cost of debt (k_d) is 6% cost of equity (K_e) is 11% and overall cost of capital (K_o) is 10%, calculate the value of the firm under NOI approach.
 - If a company's $r = 12\%$, $k_e = 8\%$ and $E = ₹ 10$, calculate value of equity under Walter's equation assuming 0% dividend pay out.

SECTION – B

Answer **any 3** questions. **Each** question carries **6** marks. **(3×6=18)**

- What is a 'Risk Adjusted Discount Rate' ? What are its merits ?
- Between equity shares and debentures which do you prefer for raising additional long-term capital ? Why ?
- What are the dangers of inadequacy of working capital ?



5. The Amogha Company belongs to a risk class for which the appropriate capitalisation rate is 10%. It has currently has 1,00,000 shares selling at ₹ 100 each. The firm is contemplating the declaration of ₹ 5 as dividend at the end of the current financial year, which has just begun. What will be the price of the share at the end of the year, if dividend is not declared? What will be the price if it is declared? Answer this on the basis of M M Model and assume no taxes.
6. The finance department of P. T. Corporation gathered the following information :
- The carrying costs per unit of inventory are ₹ 10.
 - The fixed costs per order are ₹ 20.
 - The number of units required is 30,000 per year.
 - The variable costs per unit ordered are ₹ 2.
 - The purchase cost per unit is ₹ 30.

Determine the E O Q, total number of orders in a year and the time-gap between two orders.

SECTION – C

Answer **any 3** questions. **Each** question carries **14** marks.

(3×14=42)

7. Briefly explain the factors which influence the planning of the capital structure of a company.
8. "Liberal dividend policy followed by a company is not always in the interest of shareholders" – Comment.
9. What is "Decision Tree Analysis"? Explain the steps you take for constructing a decision tree.



10. Two mutually exclusive investment proposals are being considered. The following information is available :

	Project "A"	Project "B"
	₹	₹
Cost	12,000	12,000
Life	2 years	2 years
Cash flow each year	8,000	8,000
Salvage value	Nil	Nil

Upon further Analysis it was found that the cost of the Project is a certain amount and so is the life of the Project. However, the probabilities of cash inflow each for Projects A and B are as follows :

Project "A"		Project "B"	
Possible inflow	Probability	Possible inflow	Probability
₹		₹	
4,000	• 2	7,000	• 2
8,000	• 6	8,000	• 6
12,000	• 2	9,000	• 2

Assuming cost of capital at 10%, advise the selection of the Project.

11. A company expects to have ₹ 25,000 in bank on 1st May 2016 and requires you to prepare an estimate of cash position during the three months - May, June and July 2016.

The following information is supplied :

Month	Sales	Purchases	Wages	Office expenses	Factory expenses	Selling expenses
	₹	₹	₹	₹	₹	₹
March	50,000	30,000	6,000	4,000	5,000	3,000
April	56,000	32,000	6,500	4,000	5,500	3,000
May	60,000	35,000	7,000	4,000	6,000	3,500
June	80,000	40,000	9,000	4,000	7,500	4,500
July	90,000	40,000	9,500	4,000	8,000	4,500

Other information :

- i) 20% of sales are in cash, remaining amount is collected in the month following that of sales.



- ii) Suppliers supply goods at two months credit.
- iii) Wages and all other expenses are paid in the month following the one in which they are incurred.
- iv) The company pays dividends to shareholders and bonus to workers of ₹ 10,000 and ₹ 15,000 respectively in the month of May.
- v) Plant has been ordered and is expected to be received in June. It will cost ₹ 80,000 to be paid in June.
- vi) Income tax ₹ 25,000 is payable in July