

**C. ABDUL HAKEEM COLLEGE (AUTONOMOUS),  
MELVISHARAM - 632 509.  
SEMESTER EXAMINATIONS, NOVEMBER - 2018**

**M.COM., COMMERCE  
P15MCM101 – ADVANCED FINANCIAL MANAGEMENT  
SEMESTER I**

Time: Three Hours

Maximum: 75 Marks

**SECTION - A (5 X 6 = 30 Marks)**

Answer **ALL** Questions.

1. a) Explain the scope of financial management.  
(Or)
- b) What are the functions of financial management?
2. a) Discuss the purpose of short term finance.  
(Or)
- b) Distinguish between shares and debentures.
3. a) Explain the weighted average cost of capital.  
(Or)
- b) What are the compute the cost of debt capital?
4. a) From the following information supplied to you determine the theoretical market value of equity share of company as per Walter's model.

Earning of the company	Rs. 5,00,000
Dividends paid	3,00,000
Number of shares outstanding	1,00,000
Price earning return	8
Rate of return on investment	0.15

Are you satisfied with the current dividend policy of the firm? If not ratio in this case what should be the optimal dividend payment.

(Or)

- b) The Ram company belongs to risk class for which the appropriate capitalization rate is 10 percent. It currently has 1,00,000 shares selling at Rs. 100 each. The firm is contemplating the declaration of a Rs. 6 dividend at the end of the current financial year, which has just begun. Answer the following question based on Modigliani and miller model and the assumption of no taxes.
- (a) What will be the price of the share at the end of the year if a dividend is not declared? What will it be if it is declared?
- (b) Assuming that the firm pays dividend has a net income of Rs. 1,00,000 and new investment of Rs. 20,00,000 during the period how many new shares must be issued?
5. a) Rose Ltd is engaged in customer retailing you are required to estimate its working capital requirements from the following data.

Projected annual sales	Rs. 9,00,000
Percentage of net profit to cost of sales	20%
Average credit allowed to debtors	1 Month
Average credit allowed by creditors	2 Months
Average stock carrying (in term of sales requirement)	2 ½ Months
Add 10% to allow for contingencies.	

(Or)

- b) Bharat Ltd decides to liberalise credit to increase its sales. The liberalized credit policy will bring additional sales of Rs. 3,00,000. The variable costs will be 60% of sales and there will be 10% risk for non-payment and 5% collection cost. Will the company benefit from the new credit policy?

SECTION - B (3 X 15=45 Marks)

Answer **ANY THREE** Questions

6. Describe the role of financial manager.
7. Explain briefly the sources of long term finance.
8. Discuss the theories of capital structure.
9. The cost of capital and the rate of return on investment of Rafael Ltd are 10% and 18% respectively. The company has 5 Lakh equity share of Rs. 10 each outstanding and earnings per share are Rs. 20. Compute the market price per share and value of firm in the following situation. Use Walter model and comment on the results.
10. From the following information extracted from the books of a manufacturing company. Compute the operating cycle in days?

Period covered 365 days.

Average period of credit allowed by suppliers 16 days.

Average total of debtors outstanding	4,80,000
Raw materials consumption	44,00,000
Total production cost	1,00,00,000
Total cost of sales	1,05,00,000
Sales for the year	1,60,00,000
Value of average stock maintained:	
Raw materials	3,20,000
Work in progress	3,50,000
Finished goods	2,60,000

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