

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

**M.COM., COMMERCE** **SEMESTER I**  
**P18MCM101 – ADVANCED FINANCIAL MANAGEMENT**

Time: Three Hours

Maximum: 75 Marks

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

Answer **ALL** Questions.

1. a) State the role of a financial manager.  
(Or)
- b) What are the goals of financial management?
2. a) State the basic principles of bank credit.  
(Or)
- b) What are the differences between bank overdraft and cash credit?
3. a) What are the importance of cost of capital?  
(Or)
- b) Following information is available with regards to the capital structure of Edwards Ltd.

|                          | Amount<br>Rs. | After tax cost of capital<br>% |
|--------------------------|---------------|--------------------------------|
| Debentures               | 12,00,000     | 5%                             |
| Preference share capital | 4,00,000      | 10%                            |
| Equity share capital     | 8,00,000      | 15%                            |
| Retained earnings        | 16,00,000     | 12%                            |

You are required to calculate weighted average cost of capital (WACC).

4. a) The earnings per share of Wick Mayer Ltd. are Rs. 12. The rate of capitalization is 15% and the rate of return on investment is 9%.

Compute the market price per share using Walter's formula if the dividend payout is (a) 25% (b) 50% and (c) 100%. Which is the ideal payout?

(Or)

- b) What are the factors determining dividend policy?
5. a) From the following information relating to Perara Ltd., calculate
  - (a) Operating cycle.
  - (b) No. of operating cycles in a year assuming a 360 day year, and
  - (c) Average working capital required, if annual cash operating expenses are Rs. 150 lakh.

|                                     |   |          |
|-------------------------------------|---|----------|
| <i>Stock holding:</i> Raw materials | : | 2 months |
| W.I.P.                              | : | 15 days  |
| Finished goods                      | : | 1 month. |
| Average debt collection period      | : | 2 months |
| Average payment period              | : | 45 days  |

(Or)

- b) A firm is considering to push up its sales by extending credit facilities to the following categories of customers.

(X) customers with a 15% risk of non-payment, and  
 (Y) customers with a 30% risk of non-payment.

The incremental sales expected in case of category (X) are Rs. 60,000, while in case of category (Y), they are Rs. 75,000. The variable cost is 60% of sales, while the collection cost amounts to 4% in the case of category (X) and 10% of sales in the case of category (Y).

You are required to advise the firm about extending credit facilities to each of the above categories of customers.

## SECTION - B (3 X 15=45 Marks)

### Answer **ANY THREE** Questions

6. Discuss the functions of financial management.
7. Explain the various factors determining the long term financial requirements.
8. Jennifer Ltd. is expecting an annual EBIT of Rs. 2,00,000. The company has Rs.2,00,000 in 10% Debentures. The equity capitalization rate ( $k_e$ ) is 12%. You are required to ascertain the total value of the firm and overall cost of capital. What happens if the company borrows Rs.2,00,000 at 10% to repay equity capital.
9. Calculate the market price of a share of Pollard Ltd. under: (a) Walter's formula, and (b) Gordon's formula from the following data:
 

|                              |        |
|------------------------------|--------|
| Earnings per share           | Rs. 75 |
| Dividend per share           | Rs. 45 |
| Cost of capital              | 15%    |
| Rate of return on investment | 18%    |
| Retention ratio              | 40%    |
10. Compute the working capital requirements of Raj Ltd. from the information given below.

|  | Rs.       |
|--|-----------|
| Annual sales   | 14,40,000 |
| Cost of production (including depreciation Rs. 95,000) | 12,00,000 |
| Raw materials purchases                                | 7,02,000  |
| Overheads per month                                    | 32,500    |
| Anticipated opening stock of raw materials             | 1,43,000  |
| Anticipated closing stock of raw materials             | 1,30,000  |

### Inventory norms:

|                                       |   |            |
|---------------------------------------|---|------------|
| Raw materials                         | : | 8 weeks    |
| Work-in-progress                      | : | 2 weeks    |
| Finished goods                        | : | 4 weeks    |
| Credit allowed to debtors             | : | 4 weeks    |
| Credit allowed by creditors           | : | 2 weeks    |
| cash balance desired to be maintained | : | Rs. 25,000 |

The company received an advance of Rs. 40,000 on sales orders.

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