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Post-Graduate Department of Commerce (M. Com)

M.Com Part-I, Semester-I, Semester End Examination, November 2023

COM-500: Advanced Financial Management (OA - 35)

Duration: 2 Hours **Max Marks: 40**

Instructions:

1. *This paper consists of SIX questions carrying **Equal marks**.*
2. *Question No.1 consists of 5 **Compulsory** questions of 2 **marks each**.*
3. *Answer **any THREE** questions from question 2,3,4,5 and 6.*
4. ***Each** question carries **10 marks**. Figures to the **right** indicate marks.*

Q.1. Answer the following: **(5 × 2 = 10)**

a) State any four reasons why value maximization goal is considered a superior goal to profit maximization goal?

b) Differentiate between Stock Split and Reverse Split (any two points).

c) Explain Precautionary motive of holding cash.

d) Explain any two factors affecting the capital structure.

e) Explain the concepts of compounding factor and discounting factor.

Q.2.A. 'One of the most important finance functions is to make wise decisions about acquisition of funds and utilization of funds.' Explain: **(5)**

a) Financing Function.

b) Investment Function as a part of scope of finance function.

B. 'Risk analysis gives management better information about the possible outcomes that may occur so that management can use their judgment and experience to accept an investment or reject it.' Explain any five techniques to handle risk in capital budgeting. **(5)**

Q.3.A. 'Finance function influences the operations of crucial functional areas of marketing and human resources.' Elaborate on the Financial Management function and its relation to

a) Human Resource

b) Marketing. **(5)**

B. 'Dividend decision is relevant of the value of the firm.' Explain Gordon's Approach of dividend decisions. Why was it criticized? (5)

Q.4.A. From the details given below, calculate: (5)

a) Maximum stock level.

b) Minimum stock level.

Reorder quantity – 250 units.

Rate of consumption: Maximum – 30 units per week; Minimum – 20 units per week.

Log in time: 5 to 7 weeks.

B. The P/E Ratio of a company is 10. The Company has 2,00,000 shares outstanding with the current market price of Rs. 150 per share. The total earnings per share of the company are Rs.200 and the dividend payout ratio is 20%. Given the Miller-Modigliani Assumption, what will be the price of the share if: (5)

a) Dividends are declared.

b) Dividends are not declared.

Q.5. From the following data, compute the duration of the operating cycle for each of the years. (10)

	Year I	Year II
Raw materials	30,000	25,000
Work in progress	15,000	20,000
Finished goods	25,000	24,000
Purchase of raw materials	90,000	1,25,000
Cost of goods sold	1,50,000	1,20,000
Sales	1,70,000	2,10,000
Debtors	42,500	52,500
Creditors	18,000	25,000

Assume 360 days in a year.

Q.6. Calculate the specific cost of each source of finance and overall cost of capital using the information given below: **(10)**

i. Corporate tax rate is 35%.

ii. The company can sell 15 year 14% debentures of the face value of Rs.1000 for Rs.970 (redeemable at face value).

iii. 15% preference shares having face value of 100 can be sold at a premium of 10% with 10 year maturity (redeemable at face value).

iv. The equity shares are expected to be sold at Rs.123 per share and underwriting fees of Rs.3 per share. The growth rate in dividend is 6%. Expected dividend on equity share is Rs.15 per share.

v. The market values of each type of capital are as follows:

Type of capital	Market value (Rs.)
Debt	19,20,000
Preference	5,20,000
Equity	1,00,000
Retained earnings	30,000
Total	25,70,000