

PARUL UNIVERSITY
FACULTY OF COMMERCE
M.Com.(Hons) Summer 2017 – 18 Examination

Semester: 3**Date: 26-05-2018****Subject Code: 16201201****Time: 10.30 am to 1.00 pm****Subject Name: Advanced Financial Management****Total Marks: 60****Instructions:**

1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

Q.1 Do as directed.**A) Choose the correct option. (Each of one mark) (06)**

- 1 Financial Planning deals with:

(a) Preparation of Financial Statements	(b) Planning for a Capital Issue
(c) Preparing Budgets	(d) All of the above.
- 2 Cost of Capital refers to _____.

(a) Flotation Cost	(b) Dividend
(c) Required Rate of Return	(d) None of the above
- 3 Savings in respect of a cost is treated in capital budgeting as:

(a) An Inflow	(b) An outflow
(c) Nil	(d) None of the above.
- 4 Business risk can be measured by _____.

(a) Financial leverage	(b) Operating leverage
(c) Combined leverage	(d) None of the above
- 5 Operating leverage helps in analysis of:

(a) Business Risk	(b) Financing Risk
(c) Production Risk	(d) None of the above
- 6 Dividend irrelevance argument of MM Model is based on:

(a) Issue of Debentures	(b) Issue of Bonus Share
(c) Arbitrage	(d) Hedging

B) Write below Terms. (Each of one mark) (06)

1. Financial Management
2. Cost of Capital
3. Leverage
4. Capital Structure
5. Time Value of Money
6. Working Capital

Q.2 Answer the Following. (Each of 04 mark) (12)

- 1 What is the goal of Financial Management? Describe in brief.
- 2 Assuming a discount rate of 10 per cent, and the associated cash flows detailed below, compute the value of the assets X and Y.

Year	Cash flows (expected returns)	
	X	Y
1	Rs. 10,000	Rs 5,000
2	Rs. 10000	Rs. 10000
3	Rs. 10000	Rs. 15000

- 3 What is working capital management? How will you describe it?

Q.3 Answer the following. (Any Three) (Each of 06 mark) (18)

- 1 NOI of Aaja Fasaja & Co. is Rs. 20,000. It can raise the debt fund at 10% interest. Answer the following situation under no tax. Under Net Income approach of capital structure with cost of equity equal to 15% find Value of the Firm & Overall Cost of Capital under below situations.
 - (i) Assume debt component is zero.
 - (ii) If Debt capital is 60000.
- 2 Gordon model of dividend decision : Describe in brief.
- 3 What is Debenture? How will you describe three types of Debenture?

- 4 The EPS of the Company is Rs. 4 and the Capitalization rate of equity is 15%. The company has option of adopting 100% and 50% D/P ratio. Compute the market price of the company as per Walter's model if it earns return of 20%, 15%, 10% on its retained earnings.

Q.4 Answer the following. (Any two)

(18)

- 1 While preparing a project report on behalf of a client you have collected the following facts. Estimate the net working capital required for that project. Add 10 per cent to your computed figure to allow contingencies:

Particulars	Amount per unit
Estimated cost per unit of production:	Rs
Raw material	80
Direct labour	30
Overheads (exclusive of depreciation, Rs 10 per unit)	60
Total cash cost	170

Additional information:

Selling price, Rs 200 per unit

Level of activity, 1,04,000 units of production per annum

Raw materials in stock, average 4 weeks

Work in progress (assume 50 per cent completion stage in respect of conversion costs and 100 per cent completion in respect of materials), average 2 weeks

Finished goods in stock, average 4 weeks

Credit allowed by suppliers, average 4 weeks

Credit allowed to debtors, average 8 weeks

Lag in payment of wages, average 1.5 weeks

Cash at bank is expected to be, Rs 25,000.

You may assume that production is carried on evenly throughout the year (52 weeks) and wages and overheads accrue similarly. All sales are on credit basis only.

- 2 Assume Mr X places his savings of Rs 1,000 in a two-year time deposit scheme of a bank which yields 6 per cent interest compounded semi-annually. He will be paid 3 per cent interest compounded over four periods—each of six months' duration. Table 2 presents the calculations of the amount Mr X will have from the time deposit after two years.
- 3 Explain Indian Financial system in brief.