Seat No:_______________ **Enrollment No:_______________**

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

Semester: III **Date: 04:12:2017**
Subject Code: 16201201 **Time: 10.30 am to 01.00 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 Capital Budgeting is a part of_______________.
(a)Investment Decision (b) Working Capital Management
(c) Marketing Management (d) Capital Structure

2 Cost of Capital refers to____________________.
(a) Flotation Cost (b) Dividend
(c) Required Rate of Return (d) None of the above

3 In case the firm is all-equity financed, WACC would be equal to ______________.
(a) Cost of Debt (b) Cost of Equity
(c) Neither (a) nor (b) (d) Both (a) and (b)

4 Business risk can be measured by_________________.
(a) Financial leverage (b) Operating leverage
(c) Combined leverage (d) None of the above

5 Which of the following is true for Net Income Approach?
(a) Higher Equity is better (b) Higher Debt is better
(c) Debt Ratio is irrelevant (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) Define below Terms. (Each of one mark) **(06)**

1 Financial Management
2 Cost of Capital
3 Leverage
4 Capital Structure
5 Arbitrage
6 Working Capital

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

1 Describe scope of Financial Management in brief.

2 Mr. ABC has a bond worth Rs. 100 face value, 10% interest rate and 4 years to maturity. Mr. ABC has paid Rs. 103.24 for bond today.
i) What will be the YTM?
ii) If the bond can be redeemed two years from now at a price of Rs. 110, what will be the yield?

3 How will one estimate Working Capital in Business? Elaborate with the concept of Gross and net working capital.

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 How Venture Capitalist perform their role in the development of the nation? Explain

3 Explain any 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% and 10% on its retained earnings.

Q.4 Answer the following. (Any two) (Each of 09 Marks) **(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:

1. Selling price, Rs 200 per unit
2. Level of activity, 1,04,000 units of production per annum
3. Raw materials in stock, average 4 weeks
4. 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
5. Finished goods in stock, average 4 weeks
6. Credit allowed by suppliers, average 4 weeks
7. Credit allowed to debtors, average 8 weeks
8. Lag in payment of wages, average 1.5 weeks
9. 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 Explain Leasing and Hire Purchase with keeping distinction in context.

3 A. Co. issued 10,000 15% Irredeemable debentures of Rs.100. The company paid following flotation cost: underwriting commission 1.5%, brokerage 1.5% and other charges Rs.10,000. If the tax rate is 50% Calculate the K_d under the following circumstances.

(a) If they are issued at par.
(b) If they are issued at discount of 10%.
(c) If they are issued at premium of 10%.