Seat No:_______________ Enrollment No:_______________

PARUL UNIVERSITY

FACULTY OF COMMERCE

M.Com.(Hons) Winter 2018 – 19 Examination

Semester: 3 **Date: 22/10/2018**
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(A) Multiple choice type questions.(Each of one mark) **(06)**

1. The only feasible purpose of financial management is
   a) Wealth Maximization b) Sales Maximization
   c) Profit Maximization d) Assets maximization
2. If the Present Value of Cash Inflows are greater than the Present Value of Cash Outflows, the project would be
   a) Accepted b) Rejected with approval
   c) Rejected with condition d) Rejected
3. The cost of debt capital is calculated on the basis of
   a) Net proceeds b) Capital
   c) Annual Interest d) Annual Depreciation
4. Degree of Combined leverage can be obtained by
   a) EBIT + Fixed Costs/EBIT - Total Interest Expense b) Sales/Contribution x 100
   c) EBT/Sales d) Sales/Cash x 100
5. Capital budgeting actually the process of making investment decisions in
   a) Sales Planning b) Fixed Assets
   c) Production process and style d) Current Assets
6. The term "capital structure" refers to:
   a) long-term debt, preferred stock, and common stock equity. b) total assets minus liabilities.
   c) current assets and current liabilities. d) shareholders' equity.

Q.1(B) Match the following. (Each of one mark) **(06)**

(A) Dividend	1. Portion of Current Assets
(B) Stock	2. Fixed Liabilities
(C) Reserve	3. Portion of Profit
(D) Depreciation	4. Surplus
(E) Value of image	5. Charge against Profit
(F) Fair value	6. Goodwill
	7. Shares

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

1. Find the IRR of an investment having initial cash outflow of $213,000. The cash inflows during the first, second, third and fourth years are expected to be $65,200, $96,000, $73,100 and $55,400 respectively.
2. An initial investment of $8,320 thousand on plant and machinery is expected to generate cash inflows of $3,411 thousand, $4,070 thousand, $5,824 thousand and $2,065 thousand at the end of first, second, third and fourth year respectively. Calculate the net present value of the investment if the discount rate is 18%.
3. How will you justify the Relevance and Irrelevance of Capital Structure in Decision Making?

Q.3 Answer the following.(Any Three) **(18)**

1. Define Leverage. Discuss the types of Leverage in details.
2. Short note on Sources of Long Term Finance
3. The EPS of the company is Rs. 15. The market rate of discount applicable to the company is 12%. The dividends are expected to grow at 10% annually. The company retains 70% of its earnings. Calculate the market value of the share using Gordon's model.
4. If you wish to accumulate $197,000 in 5 years, how much must you deposit today in an account that pays a quoted annual interest rate of 13% with semi-annual compounding of interest?

Q.4 Answer the following. (Any two) **(18)**

1. From the following information, prepare a statement in column form showing · the working capital requirements.

Budgeted sales ($10 per unit)	$2,60,000 p.a.
Raw Materials	$ 3.00 (Per Unit)
Direct Labour	$ 4.00 (Per Unit)
Overheads	$ 2.00 (Per Unit)
Total Cost	$ 9.00 (Per Unit)
Profit	$ 1.00 (Per Unit)
Sales	$ 10.00 (Per Unit)

It is estimated that

   1. Raw materials are carried in stock for three weeks and finished goods for two weeks.
   2. Factory processing will take three weeks.
   3. Suppliers will give full five weeks credit.
   4. Customers will require eight weeks credit.
   5. It may be assumed that production and overheads accrue evenly throughout the year.

2. 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.

   1. If they are issued at par
   2. If they are issued at disc. 10%
   3. If they are issued at prem 10%

3. Fashions Ltd's balance sheet.

	(Rs. in Lakhs)
Eq.	400 Lakhs
12 % (Deb)	400 Lakhs
18 % Term Loan	1200
	2000

Determine WACC . Company been paying dividends at rate of 20% p.a.
What diff it will make, if the current market price of the Rs.100/share is become Rs.160.
Determine the effect of income tax on the cost of capital under both assumption tax rate is 46%.