D.K.M COLLEGE FOR WOMEN, (AUTONOMOUS),VELLORE-1.

DEPARTMENT OF COMMERCE

I M.COM

ADVANCED FINANCIAL MANAGEMENT.

SECTION-A 6 Marks

1. State the objectives of Financial Management?
2. Explain the functions of Financial Management?
3. Distinguish Maximization Vs optimizations.
4. Discuss the approaches to Financial management.
5. State the various functions of the Finance manager?
6. Financial Management – "Science of well as art'.
7. Discuss the importance of Financial Management
8. State the risk involved in the return on investment.
9. Differentiate profit Vs Wealth Maximization.
10. Explain in brief the Financial Management.
11. State the functions of finance?
12. . Distinguish between equity shares and debentures.
13. Enumerate the working capital finance.
14. Discuss the needs of finance.
15. State the sources of short-teem finance?
16. Explain the 'LongTerm' finance?
17. What is meant by working capital finance?
18. Discuss the different types of shares & Debentures.
19. Distinguish the capital structures & Financial structure.
20. State the features of capital structure?
21. Discuss the factors determining capital structure.
22. Describe the traditional approach to capital structure.
23. Discuss the net-income approach to capital structure?
24. Write a short note on indifference point.
25. Describe the arbitrage process under MM Approach.
26. What do you mean by optimum capital structure.
27. Discuss the components of cost of capital?
28. List out the advantages of cost of capital?
29. How will you compute cost of retained earnings?
30. Write a short note on marginal cost of capital?

31. Discuss the different types of cost of capital?
32. State the factors determining cost of capital?
33. 'A' Ltd.' Average annual dividend pay-out is Rs.25 per share (face value: Rs.100). you are required to ascertain:
    (A) Cost of equity capital
    (B) Cost of equity capital if the market price of the share is Rs.150.
    (C) Expected market price in year 2, if the cost of equity is expected to rise to 20%.
34. 'B' Ltd pays a dividend of RS.4 per share. Its shares are quoted at Rs.40 presently and investors expect a growth rate of 10% per annum. Calculate (a) cost of equity capital (b)expected market price per share if anticipated growth rate is 11% (c) Market price if dividend is Rs.4, cost of capital is 16% and growth rate is 10%.
35. Kanishka Ltd., wants to raise Rs.30,00,000 by issue of new equity shares. The relevant information is given below:

    No. of existing equity shares 50,000

    Profit after tax R s. 3,00,000

    (a) Compute the cost of existing equity capital.
    (b) Compute the cost of new equity capital.

        If the shares are issued at a price of Rs.35 per share & floatation cost is Rs.5 per share.
36. 'N' Ltd has issued 40,000 shares of Rs.10 each fully paid. The company has earned a profit of these shares is Rs.16 per share. The company has paid a dividend of Re.0.80 per share. Calculate the cost of equal on the basis (i) Dividend yield method (ii) Earnings price method.

37. 'D' Ltd has an EBIT of R s. 4,50,000. The cost of debt is 10 and the outstanding debt is Rs.12,00,000. The overall capitalisation rate is 15% Calculate the value of firmly equity capitalisation rate under No 1 Approach.

38. Krishna Ltd is expecting an annual EBIT of Rs.2,00,000. The company has R s. 7,00,000. In 10% debentures. The cost of equity capital is 12.5% you are required to calculate the total value of the firm. Also ascertain the overall cost of capital.

39. Calculate the financial leverage from the following data:

Net Worth Rs.25,00,000.

Debit 3/1

Interest rate 12%

Operating profit Rs.20,00,000.

40. Find out degree of operating leverage:
    EBIT (2008) Rs. 50,000: sales (2008) 20,000 units.
41. Compute operating, financial and combined leverages.

    Sales 50,000 units at Rs.12 per unit.

    Variable cost at RS.8 per unit.

    Fixed cost Rs. 90,000 (including 10% interest on Rs. 2,50,000)
42. Discuss the different types of dividend?
43. State the objectives of dividend policy?
44. What are the factors determining dividend policy?
45. State the advantages of Dividend policy?
46. Discuss Walter Model of dividend policy.
47. EPS: Rs.10, IOR-18%; cost of capital-20% pay-out ratio-40%
    Calculate the market price under water Model.
48. Determine the market price per share under Gordon's model:
49. Anand corporation Ltd belongs to a risk class of which the appropriate capitalisation rate is 10% it currently has 1,00,000 shares quoting Rs.100 each. The company proposes the declare a dividend of Rs.6 per share at the end of the current fiscal year which has just begun.

(i) What will be the price of the share at the end of the year if dividend is not declared?

(ii) What will be the price if dividend is declared?

50. Determine the price of share under Walter& Gordon model if internal rate (a) 10% (b)15%

    EPS: Rs.20

    Capitalisation Rate :10%

    Retention ratio :50%
51. State the concepts of Working capital?
52. Discuss the features of working capital.
53. Explain the advantages of working capital.
54. Discuss the term 'working capital Management.

55. Calculate (a) operating (b) No. of operating cycles in a year assuming a 360-day year and average working capital required, if annual cash operating expenses are Rs.150 lakh.

Stock holding: RM :2 months

WIP:15 days

FG :1 month

Average debt collection period: 2 months

Average payment period :45 Days.

56. Determine the working capital requirement:

Rm = 60 days; WIP -45 days; FG= 15days

Debtors =30 days and creditors =60days.

Annual turnover=n73 lakh. Materials -50%,

Labour :30%; overheads =10% and profit =10%. Of the overheads,30% constitute depreciation.

57. Rose Ltd., engaged in customer retailing. Calculate working capital requirements:

Projected annual sales: Rs.9,00,00

Percentage of net profit to cost of sales:20%

Average credit allowed to debtors: 1 month

Average credit allowed by creditors :2 months

Average stock carrying -21/2 months.

Add: 10% for contingencies.

SECTION-B 15 MARKS

1. Briefly explain the functions of Financial Management?
2. Explain the approaches to the Financial Management?
3. Explain the changing scenario of financial Management in India?
4. Outline the methods &tools of financial management.
5. Explain in brief the decisions involved in financial management?
6. State briefly the risk-return trade off?
7. Explain in brief the long -term sources of funds.
8. Discuss the internal sources of finance.
9. Explain the different types of shares?
10. State the types of debentures?
11. Explain briefly the different sources of working capital finance?
12. Briefly explain the types of cost of capital.

13. Explain the factors determining cost of capital.
14. Explain the features of appropriate capital structure.
15. Discuss the theories of capital structure.
16. Explain the types of Leverages?
17. Calculate operating, financial and combined leverages under situations A, B and c from the following particulars:

    Installed capacity -1200 units

    Actual production & sales – 800 units

    Selling price per unit -Rs.15

    Variable cost per unit- Rs.10

    Fixed cost: Situation A -Rs.1000

    Situation B – Rs.2000

    Situation c - Rs.3000

Capital structure		Financial plan I	II	III
Equity (Rs)	______	5000	7500	2500
Debt	_______	5000	2500	7500

18. Calculate operating, financial and combined leverage of the two companies:

Particulars	company 'A'	company 'B'
Equity capital	Rs.6,00,000	Rs.3,50,000
12% debentures	Rs.4,00,000	Rs.6,50,000
Output (units	60,000	15,000
Selling price	Rs.30	Rs.250
Fixed cost	Rs.7,00,000	Rs.14,00,000
Variable cost	Rs.10	Rs.75

19. Companies M and N are identical in every respect except that the former does not use debt in its capital structure, while the latter employs Rs.12,00,000 of 15% debt. Assuming that (a) the corporate tax rate is 35% (b) EBIT is Rs.4,00,000 and (C) the equity capitalisation of the unlevered company is 20%. What will be the value of both companies under WI and No I approach?

20. Calculate the market value and overall cost capital under Traditional Approach:

Net operating Income Rs.1,20,000

Total Investment Rs.6,00,000

Equity capitalisation rate:

(a) If the company uses no debt=10%

(b) If the company uses a debt of Rs.2,40,000 =11%

(c) If the company uses a debt of Rs.3,60,000 = 12%

The debt of Rs.2,40,000 Can be raised at 5% rate of interest, while the debt of Rs.3,60,000 can be raised at 7%.

21. Compute the Weighted average cost of capital.

Sources of funds	Amount	Proportion To total	After tax Cost%
Equity share capital	7,20,000	.30	15
Retained Earnings	6,00,000	.25	14
preference share Capital	4,80,000	.20	10
Debentures	6,00,000	.25	8

22. A company is considering the following to raise additional capital for its expansion schemes.

Equity	debts	cost of equity	cost of debt
75	25	16	12
50	50	18	14
25	75	24	18

Tax rate is 50%. Which option would you recommend? Show workings.

23. Explain in brief the types of dividends?

24. Discuss the factors determining dividend policy?

25. Explain the theories of Dividend?

26. A company belongs to a risk class for which the appropriate capitalisation rate is 10%. It currently has outstanding 25,000 shares selling at Rs.100 each. The firm is contemplating the declaration of dividend of Rs.5 per share at the end of the current financial year. The company expects to have a net income of Rs.2.5 lakh and has a proposal for making new investment of Rs.5 lakh. Show that, under MM approach, the payment of dividend does not affect the value of the firm.

27. Earnings per share=Rs.20; capitalisation rate -10%; Retention ratio =50%.

Determine the price of the share under Walter Model & Gordon Model if the internal rate of return is a) 10% b)15% c)5%

28. The following information relates to Joswa Ltd.,

Earnings per share (E) = Rs.20

Cost of capital (K) = Rs.12

Rate of return = (I) 15% (ii)12% (iii)10%

Determine the Value of its share using Gordon Model assuming the following:

	Dividend pay-out%	Retention %
(a)	80	20
(b)	60	40
(c)	40	60

29. Explain the methods of forecasting the working capital requirements of a firm.

30. Discuss the sources of Working capital.

31. Briefly explain the determinants of the working capital?

32. Estimate the Net working capital:

	Cost per unit
Raw Materials	Rs.400
Direct labour	Rs.150
Overheads	Rs.300
Total Cost	Rs. 850

Additional information:

Selling price = Rs.1000 p. u.

Output = 52000 Units

Raw Materials in stock – Average 4 weeks.

Work – in – progress – Average 2 weeks.

Finished goods in stock – Average 4 weeks.

Credit allowed by suppliers -Average 4 weeks.

Credit allowed to debtors – 8 weeks

Cash @ bank Rs. 50,000.

Assume that production is sustained at an even pace during the 52 weeks of the year. All sales are on credit basis.

33. Godrej company sells goods in the home market and earns a goods profit of 20% on sales. Its annual figures are as follows: -

Sales		Rs. 3,00,000
Materials used	-	Rs. 10,8000
Wages	-	Rs. 96,000
Manufacturing expenses	–	Rs. 12,0000
Administrative expenses	–	Rs. 30,000
Depreciation	-	Rs.12,000
Selling expenses	-	Rs.18,000
Income Tax	-	Rs. 30,000

Additional information:

- Credit given by suppliers – 2 months
- Credit allowed to customers – 1 month
- Lag in payment of wages -1/2 month
- Lag in payment of administrative expenses -1 month.
- Selling expenses paid quarterly in advance.
- RM and finished goods are in stock – 1 month
- Cash balance estimated to be maintained at Rs. 30,000

You are required to prepare a statement of working capital requirements.