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| **Reg.No.** |  |  |  |  |  |  |  |  |  |  |  |

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

SEMESTER EXAMINATIONS

NOVEMBER – 2018 15CPCO1A

# ADVANCED FINANCIAL MANAGEMENT

**Time : 3 Hrs Max. Marks : 75**

SECTION-A (5x6=30)

**Answer ALL the questions.**

1. (a) Explain the objectives of Financial Management.

(Or)

(b) How the financial decision making involves risk-return trade-off? Explain.

1. (a) What are the differences between preference shares and equity shares?

(Or)

(b) Explain the features of Debenture Capital.

1. (a) A company issues 10% debentures for Rs.4,00,000. Rate of tax is 55%. Calculate the cost of

debt (after tax), if the debentures are issued

* + 1. At par
    2. Discount at 10% and
    3. At a premium of 10%.

(Or)

(b) One – up share Ltd., has equity capital of Rs. 5,00,000divied into shares of Rs.100 each. It

wishes to raise further Rs. 3,00,000 for expansion – cum- modernization scheme. The company

plans the following financial alternatives:

1. By issuing equity shares only
2. Rs.1,00,000 by issuing equity shares and Rs. 2,00,000 through debentures or term loan @ 10% per annum.
3. By raising term loan only at 10% per annum
4. Rs. 1,00,000 by issuing equity shares and Rs. 2,00,000 by issuing 8% preference

shares.

You are required to suggest the best alternative giving your comment assuming

that the estimated earnings before interest and taxes (EBIT) after expansion is Rs. 1,50,000 and

corporate rate of taxes is 35%.

1. (a) EPS of Mohan Ltd. Are Rs.16, the rate of capitalization is 18%. ROI is 12% compute the market

price per share using Walter’s formula if the dividend payout is (i) 25% (ii) 50% and (iii) 100%

which is the ideal payout?

(Or)

(b) From the following information compute the market price per share under Gordon’s model:

EPS Rs.12

Retention ratio 25%

Capitalisation rate 10%

Rate of return 15%

1. (a) From the following particulars, calculate the
2. Maximum Stock Level
3. Minimum Stock Level
4. Re-Ordering Level
5. Average Stock Level

Normal Consumption = 600 units per week

Maximum consumption = 840 units per week

Minimum consumption = 480 units per week

Re-Order quantity = 7,200 units

Re-Order period = 10 to 15 weeks

Normal re-order period = 12 weeks

(Or)

(b) A company is expecting to have Rs.2, 50,000 cash in hand on 1st April 2008, and it requires you

to prepare an estimate of cash position during the three months, April – June 2008.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Month | Sales  Rs. | Purchases  Rs. | Wages  Rs. | Expenses  Rs. |
| February  March  April  May  June | 7,00,000  8,00,000  9,20,000  10,00,000  12,00,000 | 4,00,000  5,00,000  5,20,000  6,00,000  5,00,000 | 80,000  80,000  90,000  1,00,000  1,20,000 | 60,000  70,000  70,000  80,000  90,000 |

Additional information:

1. Period of credit allowed by suppliers is two months.
2. 25% of sale is for cash and the period of credit allowed to customer for credit sale is one month.
3. Delay in payment of wages and expenses are one month.
4. Income tax Rs. 2,50,000 is to be paid in June 2009.

SECTION-B (3x15 =45)

**Answer any THREE of the following questions.**

1. Explain in detail, the role and functions of a Finance manager.
2. Explain in detail, the various sources of short-term finance.
3. The capital structure of William Corporation Ltd. Consists of an ordinary share capital of Rs.20 lakhs (shares of Rs.100 per value0 and Rs.20 lakhs of 10% debentures. The unit sales increased by 20% from 2,00,000 units to 2,40,000 units, the selling price is Rs.10per unit, variable cost amounts to Rs.6 per unit and fixed expenses amount to Rs.2,00,000. The income tax rate is assumed to be 50%.

You are required to calculate the following:

1. The percentage increase in earnings per share.
2. The degree of financial leverage at 2,00,000 units and 2,40,000 units.
3. The degree of operating leverage at 2,00,000 units and 2,40,000 units.
4. The following data relate to M Ltd.

Earnings per share = 10

Capitalisation rate = 15%

Retention ratio = 18%

Determine the price of the share under Walter’s Model and Gorden’s model if the internal rate of return is (a) 10% (b) 15% (c) 5% for different payout ratio in EPS is 20%, 40% and 60%.

1. X and Y, who want to buy a business, seek your advice about the average working capital requirements in the first year’s trading. The following estimates are available and you are asked to add 10% for contingencies.

|  |  |
| --- | --- |
|  | Per annum  Rs. |
| (1) Average amount locked up in stock:  Stock of finished goods and WIP  Stock of stores, materials  (2) Average credit given :  Local sales - 2 week credit  Outside the state - 6 weeks credit  (3) Time available for payment:  For purchases - 4 weeks  For wages - 4 weeks | 50,000  80,000  7,80,000  31,20,000  9,60,000  26,00,000 |

Calculate the average amount of working capital requirements.

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