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

**SEMESTER EXAMINATIONS**

**NOVEMBER – 2016 15CPCO1A**

**ADVANCED FINANCIAL MANAGEMENT**

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

**Section – A (5 x 6 = 30)**

**Answer ALL the questions.**

1. (a) What is Financial Management? What are its objectives?

(Or)

(b) Explain the relationship between Financial Management and other functional areas.

1. (a) State the need for short term finance.

(Or)

(b) What are the different types of debentures?

1. (a) MM Ltd., issued 5,00,000 equity shares of Rs.10 each at a premium of 10%. The company has

been paying a dividend of 27% regularly for the past 5 years. It is expected to maintain the

dividend in future also. You are required to calculate

i) The cost of equity capital; and

ii) The cost of equity capital if the market price of the share is Rs.50.

Use dividend yield method.

(Or)

(b) The capital structure of PK Ltd., consists of Equity Share Capital of Rs.5,00,000 and 9%,

Debentures of Rs.2,50,000. The Fixed Cost is Rs.50,000. You are required to ascertain

1. Operating Leverage, and
2. Financial Leverage.

When EBIT is Rs.1,00,000.

1. (a) The following information related to HB Ltd.,

EPS = Rs.10

IRR =18%

Cost of Capital = 20%

Payout Ratio = 40%

Compute the market price under Walter’s Model.

(Or)

(b) Explain the factors that influence the dividend policy of a firm.

1. (a) Analyse the determinants of working capital requirements of a firm.

(Or)

(b) Explain traditional theories of capital structure.

**Section – B ( 3 x 15 = 45 )**

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

1. Explain the functions of Financial Management.
2. List out and explain the various sources and application of funds in a business organisation.

1. PMKN Ltd., is expecting an annual EBIT of Rs.2,00,000. The company has Rs.2,00,000 in 10% debentures. The equity capitalisation rate (Ke) is 12%. You are required to ascertain the total value of the firm and overall cost of capital. What will happen if the company borrows Rs.2,00,000 at 10% to repay equity capital?
2. SCK Ltd., earns a profit of Rs.35 per share, the rate of capitalisation is 15% and the productivity of

retained earnings is 10%. Using Gordon’s Model, determine the market price per share if the payout is

i) 20% ii) 40% iii) 70%.

1. Cost sheet of a company provides the following particulars:

Elements of cost:

Raw materials : 40%

Labour :10%

Overhead :30%

The following particulars are also available:

1. Raw materials remain in stock for 6 weeks.
2. Processing time 4 weeks.
3. Finished goods are in stock for 5 weeks.
4. Period of credit allowed to debtors 10 weeks.
5. Lag in payment wages 2 weeks
6. Period of credit allowed by creditors 4 weeks.
7. Selling price Rs.50 per unit.
8. Production in units 13,000 p.a.

Prepare an estimate of working capital by allowing 10% for contingencies.

Assume that both the purchase and sales are on credit. The working - in - progress consists

of 100% Material; 50% Labour and 50% Overhead.

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