V Semester B.Com. Examination, November/December 2017
(CBCS) (Repeaters)
(2016 – 17 Only)
COMMERCE
5.5 : Advanced Financial Management
Elective Paper – 1

Time : 3 Hours
Max. Marks : 70

Instruction: Answer should be completely written either in English or in Kannada.

SECTION – A

1. Answer any 5 sub-questions. Each sub-question carries 2 marks. (5x2=10)
   a) What is Risk Adjusted Discount Rate?
   b) What are the elements of capital structure?
   c) Mention the types of risks in capital budgeting.
   d) Differentiate between hypothecation and pledge.
   e) What is dividend payout ratio?
   f) Net operating income ₹ 70 million, tax rate is 30%, debt capital is 140 million, interest rate is 10% and capitalization rate 18%.
      What should be the value of firm according to MM?
   g) EPS = E8 Rate Of Return [ROR] 18% cost of capital =15%. What will be the price per share when the dividend payout ratio is 40%, if Walter’s basic valuation formula holds good?

SECTION – B

Answer any 3 questions. Each question carries 6 marks. (3x6=18)

2. The 'certainty equivalent' approach is theoretically superior to the risk adjusted discount rate do you agree? Give reasons.

3. "The assumptions underlying the irrelevance hypothesis of MM are unrealistic". Explain.

4. What are the dangers of inadequacy of working capital?

P.T.O.
5. 'X' Ltd. has a net operating income of ₹ 50 million. It employed ₹ 200 million of debt capital carrying 12% interest. The equity capitalized rate is 14%. What is the market value under NI method?

6. Kamalal and company requires 50,000 units of a certain item per year. The purchase price per unit is ₹ 30, carrying cost 15% of inventory value and fixed cost per order in ₹ 400.
   a) Determine EOQ.
   b) How many times per year will inventory be ordered? If the size is equal to the EOQ.

**SECTION C**

Answer any 3 questions. Each question carries 14 marks. (3×14=42)

7. Describe the traditional view on the optimum capital structure. Compare and contrast this view with NOI and NI.

8. Briefly explain factors that determine the working capital needs of a firm.

9. Distinguish between profit and cash flows. Why are cash flow important in investment decision?

10. Prepare cash budget for May, June and July of 'Gokul Fashions'. They provided you following information.

<table>
<thead>
<tr>
<th></th>
<th>May</th>
<th>June</th>
<th>July</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>₹ 8,00,000</td>
<td>₹ 8,00,000</td>
<td>₹ 12,00,000</td>
</tr>
<tr>
<td>Purchases</td>
<td>₹ 7,60,000</td>
<td>₹ 7,20,000</td>
<td>₹ 9,00,000</td>
</tr>
<tr>
<td>Rent paid</td>
<td>₹ 20,000</td>
<td>₹ 20,000</td>
<td>₹ 20,000</td>
</tr>
<tr>
<td>Personal exp. with drawals</td>
<td>₹ 10,000</td>
<td>₹ 10,000</td>
<td>₹ 10,000</td>
</tr>
<tr>
<td>Salaries and other exp.</td>
<td>₹ 50,000</td>
<td>₹ 40,000</td>
<td>₹ 60,000</td>
</tr>
<tr>
<td>Furniture purchased</td>
<td>₹ 70,000</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a) The present cash balance is ₹ 18,000 their target cash balance ₹ 25,000.

b) All sales will be in cash basis.

c) Payment for purchases will be made after a lag of one month. Outstanding on account of purchases in April is ₹ 7,00,000.

What will be surplus/deficit of cash in relation to their target cash balance?
11. A project involving an outlay of ₹ 25 lakhs has the following benefits associated with it.

<table>
<thead>
<tr>
<th>Year - 1</th>
<th>Year - 2</th>
<th>Year - 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>10</td>
<td>0.2</td>
<td>9</td>
</tr>
<tr>
<td>12</td>
<td>0.5</td>
<td>11</td>
</tr>
<tr>
<td>13</td>
<td>0.3</td>
<td>12</td>
</tr>
</tbody>
</table>

Discount factors at 15%:
Year - 1, 0.8695  Year - 2, 0.7561  Year - 3, 0.6575

Assume that the cash flows are independent. Calculate the expected NPV and the standard deviations of Net present value assuming that i : 15%.

1. (5x2=10)
   5. ఇది ఒక కౌంట్యాన్ని ఉంది. అంటే ఇది ఒక కౌంట్యాన్ని ఉంది?
      a) ఇది ఒక కౌంట్యాన్ని ఉంది?
      b) ఇది ఒక కౌంట్యాన్ని ఉంది?
      c) ఇది ఒక కౌంట్యాన్ని ఉంది?
      d) ఇది ఒక కౌంట్యాన్ని ఉంది?
      e) ఇది ఒక కౌంట్యాన్ని ఉంది?

2. (3x6=18)
   3. ఇది ఒక కౌంట్యాన్ని ఉంది?
   4. ఇది ఒక కౌంట్యాన్ని ఉంది?
   5. NOI ₹ 50 (million) అలాగే రావడా ఉండాలా? ₹ 200 (million) అలాగే ₹ 12% మరాదిచే రావడా ఉండాలా?

   NOI ₹ 50 (million) అలాగే రావడా ఉండాలా? ₹ 200 (million) అలాగే ₹ 12% మరాదిచే రావడా ఉండాలా?

   NOI ₹ 50 (million) అలాగే రావడా ఉండాలా? ₹ 200 (million) అలాగే ₹ 12% మరాదిచే రావడా ఉండాలా?

   NOI ₹ 50 (million) అలాగే రావడా ఉండాలా? ₹ 200 (million) అలాగే ₹ 12% మరాదిచే రావడా ఉండాలా?

   NOI ₹ 50 (million) అలాగే రావడా ఉండాలా? ₹ 200 (million) అలాగే ₹ 12% మరాదిచే రావడా ఉండాలా?
6. ಸುಮಾರು 50,000 ಬ್ಯಾಂಕ್‌ಗಳು ಹೊರಗಿರುವರು. ವರ್ಷಕ್ಕೆ 15% ಒಣಾಟಿಸಬೇಕು. ವರ್ಷಕ್ಕೆ 30% ಒಣಾಟಿಸಬೇಕು. ಸಲಹಾ ರೀತಿಯಲ್ಲಿ, ವರ್ಷಕ್ಕೆ 400 ರೂಣಗಳು ಒಣಾಟಿಸಬೇಕು. 
   a) ಅಂಕೆ ಮತ್ತು [EOQ] ಅಂಕೆ ಹೊಂದಿಸಿಕೊಂಡರು. 
   b) ಅಂಕೆ ಮತ್ತು [EOQ] ಅಂಕೆ ಹೊಂದಿಸಿಕೊಂಡರು. ಅತ್ಯಂತ ಅರುತು [EOQ] ಹೊಂದಿಸಿಕೊಂಡರು.

7. ಅನುಕರ್ತವಾದರು ಒಣಾಟಿಸಬೇಕು ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು. 

8. ಅನುಕರ್ತವಾದರು ಒಣಾಟಿಸಬೇಕು ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು.

9. ಅನುಕರ್ತವಾದರು ಒಣಾಟಿಸಬೇಕು ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು.

10. ಅನುಕರ್ತವಾದರು ಒಣಾಟಿಸಬೇಕು 3 ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು.

<table>
<thead>
<tr>
<th>ವರ್ಷ</th>
<th>ಅಂಕೆ</th>
<th>ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು</th>
<th>ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು</th>
<th>ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು</th>
<th>ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>8,00,000</td>
<td>8,00,000</td>
<td>12,00,000</td>
<td>8,00,000</td>
<td>12,00,000</td>
</tr>
<tr>
<td>2</td>
<td>7,60,000</td>
<td>7,20,000</td>
<td>9,00,000</td>
<td>7,60,000</td>
<td>9,00,000</td>
</tr>
<tr>
<td>3</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
<td>20,000</td>
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<tr>
<td>4</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
<td>10,000</td>
</tr>
<tr>
<td>5</td>
<td>50,000</td>
<td>40,000</td>
<td>60,000</td>
<td>50,000</td>
<td>60,000</td>
</tr>
<tr>
<td>6</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
</tr>
</tbody>
</table>

a) ಇದರಲ್ಲಿ ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದುರಾದರು ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು 18,000 ರೂಣಗಳು ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು 25,000.
b) ಇದರಲ್ಲಿ ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು.

11. NPV ಹೊಂದಿರುವ ಎಂಧ್ಯಾಗಿಯಾಗಿ, i = 15% ಸಲಹಾ ರೀತಿಯಲ್ಲಿ ಒಣಾಟಿಸಲ್ಪಟ್ಟದ್ದು, (SD) ಹೊಂದಿಸಲ್ಪಟ್ಟದ್ದು.
V Semester B.Com. Examination, November/December 2016  
(CBCS) (Fresh)  
(2016 – 17 & Onwards)  
5.5 : Elective Paper – I : ADVANCED FINANCIAL MANAGEMENT

Time: 3 Hours  
Max. Marks : 70

**Instruction:** Answers should be completely written either in **English**  
or in **Kannada**.

SECTION – A

1. Answer any 5 questions. Each question carries 2 marks. (5x2=10)
   a) What is Sensitivity Analysis?
   b) What do you mean by dividend capitalisation?
   c) State the important sources of fixed capital.
   d) What is meant by paying float?
   e) Give the meaning of Venture Capital.
   f) If NOI is ₹ 150 crore, cost of debt (kd) is 6% cost of equity (Ke) is 11% and overall cost of capital (Ko) is 10%, calculate the value of the firm under NOI approach.
   g) If a company’s i = 12%, ke = 8% and E = ₹ 10, calculate value of equity under Walter’s equation assuming 0% dividend pay out.

SECTION – B

Answer any 3 questions. Each question carries 6 marks. (3x6=18)

2. What is a ‘Risk Adjusted Discount Rate’? What are its merits?

3. Between equity shares and debentures which do you prefer for raising additional long-term capital? Why?

4. What are the dangers of inadequacy of working capital?
5. The Amogha Company belongs to a risk class for which the appropriate capitalisation rate is 10%. It has currently has 1,00,000 shares selling at ₹ 100 each. The firm is contemplating the declaration of ₹ 5 as dividend at the end of the current financial year, which has just begun. What will be the price of the share at the end of the year, if dividend is not declared? What will be the price if it is declared? Answer this on the basis of M M Model and assume no taxes.

6. The finance department of P. T. Corporation gathered the following information:
   a) The carrying costs per unit of inventory are ₹ 10.
   b) The fixed costs per order are ₹ 20.
   c) The number of units required is 30,000 per year.
   d) The variable costs per unit ordered are ₹ 2.
   e) The purchase cost per unit is ₹ 30.

Determine the E O Q, total number of orders in a year and the time-gap between two orders.

SECTION – C

Answer any 3 questions. Each question carries 14 marks. (3x14=42)

7. Briefly explain the factors which influence the planning of the capital structure of a company.

8. “Liberal dividend policy followed by a company is not always in the interest of shareholders” – Comment.

9. What is “Decision Tree Analysis”? Explain the steps you take for constructing a decision tree.
10. Two mutually exclusive investment proposals are being considered. The following information is available:

<table>
<thead>
<tr>
<th></th>
<th>Project “A”</th>
<th>Project “B”</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost</strong> (₹)</td>
<td>12,000</td>
<td>12,000</td>
</tr>
<tr>
<td><strong>Life</strong> (years)</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td><strong>Cash flow each year</strong> (₹)</td>
<td>8,000</td>
<td>8,000</td>
</tr>
<tr>
<td><strong>Salvage value</strong></td>
<td>Nil</td>
<td>Nil</td>
</tr>
</tbody>
</table>

Upon further analysis, it was found that the cost of the Project is a certain amount and so is the life of the Project. However, the probabilities of cash inflow each for Projects A and B are as follows:

<table>
<thead>
<tr>
<th>Possible inflow (₹)</th>
<th>Project “A”</th>
<th>Probability</th>
<th>Project “B”</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>4,000</td>
<td></td>
<td>2</td>
<td>7,000</td>
<td>2</td>
</tr>
<tr>
<td>8,000</td>
<td>6</td>
<td></td>
<td>8,000</td>
<td>6</td>
</tr>
<tr>
<td>12,000</td>
<td>2</td>
<td></td>
<td>9,000</td>
<td>2</td>
</tr>
</tbody>
</table>

Assuming a cost of capital at 10%, advise the selection of the Project.

11. A company expects to have ₹ 25,000 in bank on 1st May 2016 and requires you to prepare an estimate of cash position during the three months - May, June, and July 2016.

The following information is supplied:

<table>
<thead>
<tr>
<th>Month</th>
<th>Sales (₹)</th>
<th>Purchases (₹)</th>
<th>Wages (₹)</th>
<th>Office expenses (₹)</th>
<th>Factory expenses (₹)</th>
<th>Selling expenses (₹)</th>
</tr>
</thead>
<tbody>
<tr>
<td>March</td>
<td>50,000</td>
<td>30,000</td>
<td>6,000</td>
<td>4,000</td>
<td>5,000</td>
<td>3,000</td>
</tr>
<tr>
<td>April</td>
<td>56,000</td>
<td>32,000</td>
<td>6,500</td>
<td>4,000</td>
<td>5,500</td>
<td>3,000</td>
</tr>
<tr>
<td>May</td>
<td>60,000</td>
<td>35,000</td>
<td>7,000</td>
<td>4,000</td>
<td>6,000</td>
<td>3,500</td>
</tr>
<tr>
<td>June</td>
<td>80,000</td>
<td>40,000</td>
<td>9,000</td>
<td>4,000</td>
<td>7,500</td>
<td>4,500</td>
</tr>
<tr>
<td>July</td>
<td>90,000</td>
<td>40,000</td>
<td>9,500</td>
<td>4,000</td>
<td>8,000</td>
<td>4,500</td>
</tr>
</tbody>
</table>

Other information:

i) 20% of sales are in cash, remaining amount is collected in the month following that of sales.
ii) Suppliers supply goods at two months credit.

iii) Wages and all other expenses are paid in the month following the one in which they are incurred.

iv) The company pays dividends to shareholders and bonus to workers of ₹ 10,000 and ₹ 15,000 respectively in the month of May.

v) Plant has been ordered and is expected to be received in June. It will cost ₹ 80,000 to be paid in June.

vi) Income tax ₹ 25,000 is payable in July.

1. Solve the following 5 questions in 2 sections. (5×2=10)

   a) If 80% of the output is sold, what is the profit?

   b) How much money will be earned as profit?

   c) What will be the profit per unit of output?

   d) How many units will be produced?

   e) What will be the total cost of production?

f) If the net income (NOI) is ₹ 150, the cost of doing (kd) 6% and the cost of producing (ke) 11% of the production (V) 10%, what will be the net income (NOI) after adjustments?

g) If the interest rate is 12%, ke = 8% and E = ₹ 10, what will be the earnings after adjusting for the production cost?