M.COM (PART-II)
: - Accountancy Group :-
ADVANCE FINANCIAL MANAGEMENT
(PAPER-III) (JUNE - 2018)

Q.P. Code : 21749

[3 Hours] **[Marks: 100]**

Please check whether you have got the right question paper.

N.B:
1. Question No. 1 and 2 are compulsory carrying 20 marks and 16 marks respectively.
2. Attempt any 4 questions from question no. 3 to question no. 9 each carrying 16 marks.
3. Working notes and assumptions should form part of your answers.
4. Use of simple calculator is allowed.
5. Figures to the right indicate full marks.

1. ABC Ltd has the following existing capital structure: **20**

Particulars	₹
Equity Share Capital (Face value ₹10/- per share)	10,00,000
10% Preference Share Capital (Face Value ₹ 100/- each)	2,00,000
12% Debentures (Face Value ₹100/- each)	8,00,000
Total	**20,00,000**

All these securities are traded in the market. Market prices are
a) 12% Debentures @ ₹ 110/- per debenture
b) 10% Preference shares @₹ 100/- per share
c) Equity shares @ ₹25/- per share.

The company expects to pay a dividend of ₹2/- per share at the end of the year which is expected to grow at 7% p.a. The company pays tax @ 30%.
Calculate the company's cost of capital
1. Using Book Value Weights
2. Using Market Value Weights

2. (A) Fill in the blank with appropriate options and rewrite the sentence. **08**

(1) The security which has controlling right is ___________.
a) Preference shares
b) Debentures
c) Equity shares

2. Cost of new machine is treated as __________.
a) Cash Inflow
b) Cash Outflow
c) Scrap Value

3. Net working capital is __________.
a) Excess of current assets are current liabilities
b) Excess of current liabilities over current assets
c) Excess of share capital over loans.

4. Float is concerned with ______________.
   a) Inventory management
   b) Receivable management
   c) Cash management
5. Financial statements can judge __________.
   a) Liquidity
   b) Short term solvency
   c) All of them
6. Cost incurred for storage of inventory is ________.
   a) Ordering cost
   b) Carrying cost
   c) EOQ
7. Stock Turnover Ratio of 3 times means, inventory holding period __________ months.
   a) 4
   b) 3
   c) 2
8. Zero interest bonds are issued at __________.
   a) Par
   b) Premium
   c) Discount

2. (B) Match the columns **08**

Group A		Group B
• Discounting	i)	Internal Rate of Return
• Cost of placement of order	ii)	Ordering cost
• Composite cost	iii)	long term solvency
• Combined leverage	iv)	Possession of goods with borrower
• Quick Ratio	v)	Weighted average cost of capital
• IRR	vi)	Contribution BET
• Credit Bureau	vii)	Deciding present values of future amount
• Hypothecation	viii)	Source of credit information
	ix)	Goods in possession of banks
	x)	1: 1

3. Using the following information, complete the Balance Sheet given below : **16**

(a) Total long-term Debt to Net Worth : 1: 2
(b) Total Assets Turnover : 2 Times
(c) Gross Profit on Sales : 30%

(d) Average collection period : 30 days
(Assume 360 days in a year)
(e) Inventory Turnover Ratio (based on cost of goods sold to year-end inventory) : 4 times
(f) Quick Ratio (quick assets / current liabilities) : 0·75 : 1

Balance Sheet of DEF Ltd. as on 31st March, 2018

Liabilities	**₹**	**Assets**		**₹**
Equity share capital	4,00,000	Fixed Assets		?
		Current Assets		
Reserve & Surplus	6,00,000	Inventory	?	
		Debtors	?	
Total long term Debts	?	Cash	?	
				?
Current Liabilities	5,00,000			
Total	??	**Total**		??

4. GHI Ltd. present sale is ₹40,00,000 per annum with 20 days credit period, present variable cost are 70% of sales and total fixed cost ₹6,00,000 per annum. The company expects pretax return on investment @25% on Total cost. Some other details in respect to increase in the credit policy with a view to increase sales are given as under :- **16**

Credit Policy	**Average Collection Period (Days)**	**Expected Annual Sales (₹)**
A	30	44,00,000
B	40	50,00,000
C	45	52,00,000
D	50	60,00,000
E	60	75,00,000

Which credit policy should the company adopt? Assuming 360 days in a year.

5. JK Ltd. is considering the purchase of new machine. Two alternative Machines (M & N) have been suggested, each having initial cost of ₹10,00,000 and ₹50,000 as additional working capital respectively. **16**

Net cash flows are expected to be as follows;

Cash Inflows

Year	**Machine M**	**Machine N**
	₹	₹
1	1,00,000	3,00,000
2	3,00,000	4,00,000
3	4,00,000	5,00,000
4	6,00,000	3,00,000
5	4,00,000	2,00,000

The company has target return on capital of 10% and on this basis you are required to compute Net Present Value (NPV) of the machines. State which alternative you considered to be financially preferable.

PV @ 10% Discounting factor.

Year	**1**	**2**	**3**	**4**	**5**
PV@ 10%	0·909	0·826	0·751	0·683	0·621

6. Given below the following data for two companies : **16**

Particulars	**O Ltd.** ₹	**P. Ltd.** ₹
Sales	40,00,000	36,00,000
Variable cost	30% of sales	30% of sales
Fixed cost	2,50,000	3,00,000
Interest	14,00,000	1,50,000

Calculate for both the companies

a) Degree of Operating Leverage
b) Degree of Financial Leverage
c) Degree of Combined Leverage

7. Q Ltd. inventory planning period is one year. Its inventory requirement for this period is 1,600 units. Assume that its order costs are ₹50 per order. The carrying costs are expected to be ₹1 per unit per year for an item. **16**

The company can procure inventories in various lots as follows;

a) 1,600 units
b) 800 units
c) 400 units
d) 200 units
e) 100 units

Determine the Economic Order Quantity (EOQ). Present your answer in tabular form.

8. RST Ltd. has a share capital of ₹5,00,000 divided into shares of 10/- each. It has a major programme requiring an investment of ₹2,00,000. The management is considering the following three alternatives for raising ₹2,00,000. **16**

I. Issue of 20,000 Equity shares of 10/- each at par.
II. Issue of 20,000 12% Preference shares of 10/- each at par.
III. Issue of 10% Debentures of ₹2,00,000.

The company's present Earning Before Interest and Tax (EBIT) are ₹1,00,000 per annum, subject to tax@ 30%. You are required to calculate the effect of each of the above financial plans on the firm's Earnings Per Share (EPS) assuming that EBIT increases to ₹1,50,000 after the expansion.

9. Write short notes (any **four**) **16**

1. Profit maximization V/s. wealth maximization
2. Net Present value method
3. Types of leverages
4. Sources of long-term finance
5. Weighted Average cost of capital
6. Factors affecting working capital