QP Code 32621

Sixth Semester B.Com. Degree Examination

August / September - 2024

(CBCS-NEP-SCHEME)

COMMERCE

PAPER : NCF 0210 : Advanced Financial Management

Time: 2 Hours **Max. Marks : 60**

Instruction to Students:

1. **The students should legibly write Section number along with question numbers within the margin only.**
2. **The answers without Section number and question numbers will not be valued.**
3. **Section - I Multiple Choice Questions should be answered in the first page of main answer book and same questions shall not be answered repeatedly.**
4. **Any identifications like marking, ticking, dots etc., in the options of MCQ Questions (Section-I) on the question paper is strictly prohibited. Do not write anything (except register number) on the question paper.** **Ordinary calculator can be used.**

SECTION - A

1. Select the most appropriate answer from the options provided, ONE mark each. 10x1=10

I-1 Which type of capital is usually the cheapest for a company to obtain?
a) Equity share capital b) Preference share capital
c) Debt d) Retained earnings

I-2 Net Operating Income Approach was Proposed by
a) David Durnad b) Walter
c) Modigliani Miller d) Francis Chermberlin

I-3 Which of the following is not a type of risk?
a) Market risk b) Credit risk
c) Inflation risk d) Time risk

I-4 Agency costs arise primarily because of:
a) Differences in risk preference between shareholders and managers
b) High transaction costs in the market
c) Low market demand for the company's products
d) High production costs

I-5. Which among the following is an irrelevance theory of Dividend?
a) Wlater's b) Gordon
c) Both A & B d) None of the Above

I-6. When the risk is high the certainty equivalent of coefficient is _____
a) Higher b) Lower
c) No impact d) None of the above

I-7. If a company's cost of debt is 6%, cost of equity is 12%, and the proportion of debt and equity are 40% and 60% respectively, what is the WACC?
a) 8.4% b) 9.6%
c) 10.2% d) 7.8%

I-8. IF E=25, Retention ratio is 10% what will be the dividend per share?
a) 22.5 b) 23.5
c) 24.5 d) 21.5

I-9. If the pre-tax cost of debenture is 25% and tax rate applicable to shareholders is 18% then the cost of dentures after tax is _____.
a) 6.74% b) 9%
c) 9.84% d) 18%

I-10. A B C Ltd, has existing assets in which it has capital invested of Rs. 150 crores. The after tax operating income is Rs. 20 crores and Co., has a cost of Capital of 12%. Estimate the Economic Value Added (EVA) of the firm.
a) Rs. 4 crore b) Rs. 2 crore
c) Rs. 5 crore d) Rs. 1crore

SECTION - II

II Answer any FIVE of the following, THREE marks each. 5x3=15

II-1. Briefly explain the types of dividends?

II-2. Write a note on WACC?

II-3. Write a note of EVA?

II-4. Chinamma Pvt. Ltd issues Rs 1,00,000, 9% debentures at a premium of 10%. The cost of floatation is Rs. 2,500. The tax rate applicable is 50%. Compute the cost of debt capital.

II-5. Compute co-efficient of variation of project A and project B. If standard deviation of project A - 49000 and project B - 64000, Mean is 120,000.

II-6. Compute Net present value of Project Y Assuming that cost of capital is 10% and Initial Investment is Rs. 90,000.

Cash Inflow Year	Amount	Probability
1	40,000	0.4
2	80,000	0.3
3	1,20,000	0.3

II-7. A company's expected annual net operating income (EBIT) is Rs. 10,00,000. The company has Rs. 30,00,000, 10% debentures. The equity capitalization rate (Ke) of the company is 12%. Calculate the value of firm.

II-8. A company has the following financial data: Market Value of Equity: Rs. 8,000,000, Market Value of Debt: Rs. 2,000,000. Book Value of Equity: Rs. 5,000,000, Book Value of Debt: Rs. 2,000,000 Calculate the Market Value Added (MVA).

SECTION III

III Answer any THREE of the following - FIVE marks each: **3x5=15**

III-1. Explain the Concept of Decision tree with suitable illustration.

III-2. Explain the factors influencing the size of Dividend Decisions.

III-3. There are two projects 'Aaaryan' and 'Pranamya', each involves an investment of Rs. 80,000. The expected cash inflows and the certainty co-efficient are as under:

Year	Project Aaryan		Project Pranamya	
	Cash Inflow	Equivalent Value	Cash Inflow	Equivalent Value
1	50,000	0.8	40,000	0.9
2	40,000	0.7	60,000	0.8
3.	40,000	0.9	40,000	0.7

Risk free cutoff rate is 10%. Suggest which of the two projects should be preferred.

III-4. Omega Company earns Rs. 5 per share & it's capitalized at a rate of 10% & as a rate of return on investment 18%. According to Walter's Model what should be the price per share at 25% dividend payout ratio. Is the firm has optimum dividend ratio according to the Walters.

III-5. The Anandatheertha Ltd. has given the following possible cash inflows for two of their projects X & Y out of which one they wish to undertake together with their associative probabilities. Both the projects will require an equal investment of Rs. 50,000.

Possible Event	Project X		Project Y	
	Cash Inflow	Probabilities	Cash Inflow	Probabilities
A	40,000	0.10	1,20,000	0.10
B	50,000	0.20	1,00,000	0.15
C	60,000	0.40	80,000	0.50
D	70,000	0.20	60,000	0.15
E	80,000	0.10	40,000	0.10

Which project is more risky by adopting EMV method?

SECTION IV

IV. Answer the following questions. TEN marks each. **2x10=20**

IV-1 Explain the various teachniques of measuring risks in capital budgeting?

OR

From the following capital structure of a company, calculate the overall cost of capital using: i) Book value weights and ii) Market value weights.

Source	Book value (in Rupees)	Market value (in Rupees)
Equity share capital (Rs. 10 per share)	90,000	180,000
Retained earnings	30,000	Nil
Preference share capital	20,000	20,000
Debentures	60,000	60,000

The after tax cost of different source of finance is as follows: equity share capital 14%, retained earning 13%, preference share capital 10% debentures 5%.

IV-2. What are the fundamental principles of ethical code of conduct?

OR

The following are the details of 3 companies, X, Y & Z.

X Ltd	Y Ltd	Z Ltd
r = 15%	r = 10%	r = 8%
k = 10%	k = 10%	k = 10%
E = Rs. 10	E = Rs. 10	E = Rs. 10

You are required to find out the value of shares of 3 firms under Gordon model based on the following 3 dividend policy.

i) 10% ii) 50% iii) 80%

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