Q.P. Code: 32621

Sixth Semester B.Com. Degree Examination, May/June, 2025

(NEP Scheme)

COMMERCE

(NCF 0210) Advanced Financial Management

Time : 2 Hours Max. Marks : 60

Instructions to students:

1. **The students should legibly write section number along with question numbers.**
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 some 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.**

SECTION - I

I. Select the most appropriate answer from the options provided. ONE mark each. **(10x1=10)**

I-1. What is the significance of cost of capital for a company?
- a) it determine the profitability of the company.
- b) it helps in capital budgeting decision
- c) it influence dividend policies
- d) All of the above

I-2. Which approach in capital structure theories suggest that the overall cost of capital is independent of the Firm's Capital Structure.
- a) Net income approach
- b) Net operating income approach
- c) Traditional approach
- d) MM Hypothesis

I-3. Which technique measure the risk of project by adjusting the discount rate used in capital budgeting.
- a) Sensitivity Analysis
- b) Certainty Equivalent Approach
- c) Risk-adjusted discount rate approach
- d) Decision Tree Analysis

I-4. What does coefficient of variation measures in risk analysis.
- a) The absolute risk of a project
- b) The probability of different outcomes
- c) The relative risk per unit
- d) The expected value of project

I-5. According to Walter's Model, if the return on investment (r) is greater than the cost of equity (k), a firm should:
a) Pay out all profit as dividends b) Retain all profit
c) Follow a stable dividend policy d) None of the above

I-6. Which theory of dividend policy suggest that dividend decision are irrelevant to the value of the firm?
a) Walter's Model b) Gordon's Model
c) M M Hypothesis d) Traditional Approach

I-7. What does EVA stands for Financial Management ?
a) Economic value added b) Equity value analysis
c) Enterprise value assessment d) Earning value allocation

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 a company's cost of debt is 6%, cost of equity is 12%, and its 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-10. A Ltd. has 1000 equity shares of Rs. 100 each, its cost of equity was 20%. Using MM Model, decide what will be the price of the share, if dividend Rs. 10 per share declared.
a) Rs. 120 b) Rs. 110 c) Rs. 115 d) Rs. 105

SECTION - II

II. Answer any FIVE on the following, THREE marks each. (5x3=15)

II-1. Write a note on cost of capital.

II-2. Define dividend and explain the types of dividend a company might issue.

II-3. What do you mean by ethical issue in finance?

II-4. ABC Company issue Rs. 100 each debenture at 6% interest per annum, floating cost is 3%. Calculate cost of debenture after tax.

II-5. From the following information determine the theoretical market value a equity share as per Walter's Model.

Earning of the company	:	₹ 5,00,000
Dividend paid	:	₹ 3,00,000
Number of share outstanding	:	1,00,000
Rate of return on investment	:	15%
Cost of equity	:	12.5%

II-6. The company currently has 50,000 shares of Rs. 50 each at capitalization rate a 10%. The company declared dividend of Rs. 6 per share at the end of current year. Ascertain the market price of the share when no dividend is declared under MM Model.

II-7. ABC issues 6% preference shares of Rs. 130 each. Find out cost of preference share capital if tax rate is 40%.

II-8. The current market price of equity share is Rs. 95 and dividend per share is Rs. 6 and expected growth rate is 7%. Find out cost of equity (Ke).

SECTION - III

III. Answer any THREE on the following, FIVE marks each. **(3x5=15)**

III-1. What are the fundamental ethical principle in business?

III-2. What is risk ? Explain the types of risk in capital budgeting.

III-3. ABC Company employs certainty equivalent approach in the evaluation of risky projects. The capital budgeting department of company has estimated the following cash flow regarding the new project.

Year	Expected Cash Inflow (₹)	Certainty equivalent Coefficient
01	90,000	0.8
02	80,000	0.6
03	70,000	0.7
04	65,000	0.8
05	45,000	0.9

The firm has the initial investment of Rs. 1,10,000. The cost of equity capital of the company is 14%. The cost of debt is 10% and the risk free rate a return is 7% should the project be accepted?

III-4. Smith Company has the following capital structure after tax calculate WACC.

Source of funds	Amount (₹)	Cost of capital after tax
Debenture	1,50,000	5%
Preference shares	12,00,000	10%
Equity shares	18,00,000	12%
Retained earning	15,00,000	11%

III-5. Calculate the EVA from the following Data for the year ended 31st March 2023.

Particulars	
Average debt (Rs. in Cr.)	50
Average equity (Rs. in Cr.)	27.66
Cost of debt (%) (Post tax)	12%
Cost of equity (%)	14%
Profit after tax (Rs. in Cr.)	15.41
Profit before tax (Rs. in Cr.)	21.41
Interest (Rs. in Cr.)	6

SECTION - IV

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

IV-1. Explain in detail the social and environmental issues.

OR

Given the following information about ABC Limited, show the effect of dividend policy on the market price & its shares using Walter's Model.

Equity capital rate (Ke) = 12%

Earning per share (E) = Rs. 8

Assumed returns on investment (r) are follows:

(1) R = 15% (2) R = 10%

Show the effect of different dividend policies on share values of the firm, when dividend pay out ratio is

(a) 0% (b) 25% (c) 50%

IV-2. Explain the factors influencing the size of capital structure.

OR

ABC Company is considering two mutually exclusive project X & Y. Project X Cost Rs. 40,000, Project Y Cost Rs. 45,000. You have been given the net present value estimates for each project.

Project X		Project Y	
Estimated NPV	**Probabilities**	**Estimated NPV**	**Probabilities**
3,000	0.1	3,000	0.2
6,000	0.4	6,000	0.3
12,000	0.4	12,000	0.3
15,000	0.1	15,000	0.2

Calculate standard deviation and coefficient of variation and comment on the consistency of NPV estimates.

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