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SN – 487

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. (5×2=10)
- What is Risk Adjusted Discount Rate ?
  - What are the elements of capital structure ?
  - Mention the types of risks in capital budgeting.
  - Differentiate between hypothecation and pledge.
  - What is dividend payout ratio ?
  - 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 ?
  - 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. (3×6=18)
- The 'certainty equivalent' approach is theoretically superior to the risk adjusted discount rate do you agree ? Give reasons.
  - "The assumptions underlying the irrelevance hypothesis of MM are unrealistic". Explain.
  - 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.

	May	June	July
	₹	₹	₹
Sales	8,00,000	8,00,000	12,00,000
Purchases	7,60,000	7,20,000	9,00,000
Rent paid	20,000	20,000	20,000
Personal exp. with drawals	10,000	10,000	10,000
Salaries and other exp.	50,000	40,000	60,000
Furniture purchased	—	—	70,000

- 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 ?

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.

Year - 1		Year - 2		Year - 3	
Cash flow (₹ in lakhs)	Probability	Cash Flow (₹ in lakhs)	Probability	Cash Flow (₹ in lakhs)	Probability
10	0.2	9	0.6	12	0.5
12	0.5	11	0.2	13	0.4
13	0.3	12	0.2	14	0.1

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  $i : 15\%$ .