

V Semester B.Com. Examination, November/December 2017  
(Repeaters) (Prior to 14-15)

COMMERCE

Paper – 5.5 : (E-1) : Advanced Financial Management

Time : 3 Hours

Max. Marks : 100

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

SECTION – A

Answer **any 10** sub-questions. **Each** sub-question carries **2** marks. **(10×2=20)**

1. a) What do you mean by holding cost ?
- b) What is gross working capital ?
- c) What is cash dividend ?
- d) What is risk analysis ?
- e) What is probability distribution approach ?
- f) What is weighted average cost of capital ?
- g) What do you mean by inventory management ?
- h) Draw operating cycle of a manufacturing unit.
- i) What is zero inventory technique ?
- j) What is capital structure ?
- k) What is operating profit ?
- l) State the speculative motives for holding cash.



## SECTION - B

Answer **any 5** questions. **Each** carries **5** marks.

(5×5=25)

2. Bring out the benefits of inventory management.
3. Briefly explain the steps involved in capital budgeting.
4. Explain Walter's theory of dividend policy.
5. It is proposed to start a business requiring a capital of ₹ 10,00,000 and an assumed return of 10% on investment. Calculated Earnings Per Share (EPS) if 60% is raised from Equity shares (₹ 10 each) and 40% capital is raised by means of 10% debentures (Ignore tax).
6. A company employs certainty-equivalent approach in the evaluation of risky investments. The capital budgeting department of the company has developed the following information regarding a new project.

Year	Expected CFAT (₹ in thousand)	Certainty-equivalent Quotient
0	200	1.0
1	160	0.8
2	140	0.7
3	130	0.6
4	120	0.4
5	80	0.3

The firm's cost of Equity capital is 18 percent, its cost of debt is 9 percent and riskless rate of interest in the market on the government securities is 9 percent. Which project should be accepted ?

7. "Payment of dividend involves legal considerations". Briefly discuss.
8. Write short notes on :
  - i) Property dividend
  - ii) Stock split.



SECTION - C

Answer **any three** of the following. **Each** carries **15** marks. **(3×15=45)**

- 9. Explain the factors affecting working capital management.
- 10. What is cash management ? Bring out the importance of cash management by briefly explaining the motives to hold cash.
- 11. From the following information prepare cash budget for the month of June, July, August, when the opening balance on 1<sup>st</sup> June was ₹ 40,000 :

Month	Sales (₹)	Purchases (₹)	Wages (₹)
April	4,48,000	1,41,000	28,000
May	5,22,000	1,62,000	41,000
June	4,98,000	1,88,000	38,000
July	5,68,000	2,10,000	48,000
August	6,10,000	2,40,000	60,000

**Other information :**

- i) Credit allowed to customers 2 months and by creditors 1 month.
- ii) Delay in payment of wages 1 month.
- iii) Advance tax paid in August ₹ 80,000.
- iv) Insurance payable ₹ 15,000 every month.
- v) Plant purchased in August ₹ 90,000.
- vi) 15% of sales and purchases are made for cash.
- vii) Selling commission is payable @ 15% of sales in the month following the month of collection.
- viii) Interim dividend paid in July ₹ 75,000.



12. The following information is available in respect of a firm :

Capitalisation rate – 15%

Earnings Per Share (EPS) – ₹ 70

Assumed rate of return on investments (i) 18% (ii) 12% (iii) 9%.

Show the effect of dividend policy on market price of shares by applying Walter's formula when dividend pay-out ratio is (a) 0% (b) 25% (c) 50% (d) 100%.

13. What is inventory management ? Discuss in detail the objectives of inventory management.

#### SECTION - D

**Compulsory** question carries 10 marks.

14. Critically evaluate different approaches of calculating cost of equity, cost of preference share capital, cost of debt and cost of retained earnings.