

SN – 376

V Semester B.Com. Examination, November/December 2014  
(Semester Scheme) (Prior to 2014 – 15)

Paper – 5.5 : (E-1) : ADVANCED FINANCIAL MANAGEMENT

100 – 2013 – 14 Only

90 – Prior to 2013 – 14

3 Hours

Max. Marks : 90/100

**Instructions :** 1) Answer should be **completely** written either in **English** or in **Kannada**.

2) Section **A, B, C** – Common to **all** students.

3) Section **D** – **Compulsory** for **100** marks paper.

SECTION – A

Answer any 10 sub-questions. Each sub-question carries 2 marks.

(10×2 = 20)

- 1) What is meant by certainty equivalent co-efficient ?
- 2) Define the term capital-budgeting.
- 3) What do you mean by stable dividend ?
- 4) What is net working capital ?
- 5) What is decision tree analysis ?
- 6) Mention two benefits of holding inventories.
- 7) What do you mean by cost of capital ?
- 8) Distinguish between levered and non-levered company.
- 9) What is meant by script dividend ?
- 10) What is J.I.T. technique ?
- 11) What is factoring ?
- 12) What is financial structure ?

SECTION – B

Answer any 5 of the following questions. Each carries 5 marks.

(5×5 = 25)

- 1) What are the objectives of cash management ?

P.T.O.



3. Explain the Gordon's theory of dividend policy.
4. State the 5 benefits of J.I.T.
5. From the following information calculate the operating cycle in days and amount of working capital requirement.

Period covered	= 365 days
Total cost of production	= 10,000
Total cost of sales	= 10,500
Annual sales	= 16,000
Raw material consumption	= 4,400
Average value of current asset :	
Raw-material	= 320
Work-in-progress	= 350
Finished goods	= 260
Debtors	= 480

All sales are credit sales.

6. Guru Ltd. provides the following information.

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Cash sales	60,000
Credit sales	2,70,000
Return Inwards	20,000
Opening debtors	50,000
Closing debtors	30,000
Provision for doubtful debts	3,000

Calculate :

- i) Debtors turnover ratio
  - ii) Average collection period
- (Note : 360 days for one year)

7. Two projects are under consideration by Sharada Ltd. Both the projects require on equal investment of ₹ 60,000. You are required to suggest the best projects from the details given below.

Possible events	Project Y		Project Z	
	Cash inflow	Probability	Cash Inflow	Probability
A	50,000	0.2	70,000	0.2
B	1,00,000	0.4	90,000	0.5
C	1,30,000	0.2	1,10,000	0.15
D	1,50,000	0.2	1,30,000	0.15

8. A company expects a net income of ₹ 2 lac. It has 6,00,000, 10% debentures. The equity capitalisation rate is 12%. Calculate the value of the firm and over all capitalisation rate according to net income approach.  
If debentures is increased to ₹ 8,00,000. What will be the value of the firm and the over all capitalisation rate ?

### SECTION - C

Answer any 3 questions. Each question carries 15 marks.

(3×15= 45)

1. What is international financial management ? Explain its merits and demerits.

2. Explain the factors determining capital-structure.

3. Sunshine Ltd. sells its products on a gross profit of 20% on sales. The following information is extracted from its annual account for year ended 31<sup>st</sup> March 2014.  
Cash balance of Rs. 1,00,000 is maintained as a precautionary measure.

- The company enjoys 1 month credit from supplier of raw material and maintain a 2 month stock of raw-material and 1½ month stock of finished goods.

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• Sales (3 months credit)	40,00,000
• Raw material	12,00,000
• Wages (15 days in arrears)	9,60,000
• Manufacturing expense (1 month in arrears)	12,00,000
• Administration expense (1 month in arrears)	4,80,000
• Selling and advertisement expenses (payable half year once)	80,000

Assume 10% margin. Find out the working capital requirement of the company.



12. X Ltd. has an investment proposal namely project A and project B. Compute standard deviation and co-efficient of variation.

Project A		Project B	
Cash flow	Probability	Cash flow	Probability
4,000	0.10	12,000	0.10
5,000	0.20	10,000	0.15
6,000	0.40	8,000	0.50
7,000	0.20	6,000	0.15
8,000	0.10	4,000	0.10

Comment on the project which is risky.

13. From the following information prepare cash budget for the month of April, May and June 2014.

Month	Sales	Purchase	Wages
February	1,20,000	84,000	10,000
March	1,30,000	1,00,000	12,000
April	80,000	1,04,000	8,000
May	1,16,000	1,06,000	10,000
June	88,000	80,000	8,000

**Other informations :**

- Credit allowed to customer 2 months and by creditors 1 month.
- Lag in payment of wages  $\frac{1}{2}$  month.
- Advance tax paid in June 25,000.
- Insurance ₹ 5,000 payable every month.
- Plant purchased in June for ₹ 25,000.
- 10% of sales and purchases are made for cash.
- Selling commission is payable at 5% on sales payable in the month following the month of collection.
- Bank balance on 1<sup>st</sup> April ₹ 5,000.

**SECTION - D**

It is compulsory for 100 marks paper.

(1×10= 10)

14. Prepare an estimate of working capital requirement of a trading concern with imaginary figures.