



V Semester B.Com. Examination, November/December 2015  
(Semester Scheme) (F+R)  
(2014-15 and Onwards)

COMMERCE

(5.5 : Elective – 2) (Paper – I) Advanced Financial Management

Time : 3 Hours

Max. Marks : 100

**Instruction:** Answer should be exclusively in **Kannada** or in **English**.

SECTION – A

1. Answer **any 10** questions. **Each** question carries **2** marks. (10×2=20)
- a) State any two objectives of capital budgeting.
  - b) Differentiate between financial risk and business risk.
  - c) What is financial structure ?
  - d) What is optimal capital structure ?
  - e) What is scrip dividend ?
  - f) State two assumptions of Gordon model.
  - g) What is permanent working capital ?
  - h) List the merits of preparing cash budget.
  - i) State the tools of inventory management.
  - j) What do you mean by long term needs ?
  - k) List the sources of long term Finance.
  - l) Give the meaning of preference share.

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## SECTION - B

Answer any 4 questions. Each question carries 8 marks.

(4×8=32)

2. Briefly explain the different financial requirements of a company to carry on activities.
3. Explain the motives of holding cash.
4. A project cost rupees 50,000. It is expected to generate cash flows as under :

Year	Cash in flow	Certainty equivalent
1	32,000	0.9
2	27,000	0.6
3	20,000	0.5
4	10,000	0.3

Risk free discount rate is 10%. Compute NPV. Discount factor at 10% for 1<sup>st</sup> year - 0.909 ; 2<sup>nd</sup> year - 0.826; 3<sup>rd</sup> year - 0.751; 4<sup>th</sup> year - 0.683.

5. Zip Ltd. provides the following information :

	Rs.
Total sales	10,40,000
Cash sales (included in total sales)	5,00,000
Return inwards	40,000
Opening Debtors	1,35,000
Closing Debtors	90,000
Opening Creditors	70,000
Closing Creditors	70,000
Provision for doubtful debts	10,000

**Calculate :**

- a) Debtors Turnover Ratio
- b) Average Collection Period.





6. Compute market value of shares as per Walter's model from the following particulars :

Earnings	Rs. 5,00,000
Dividend paid	Rs. 3,00,000
Number of shares outstanding	1,00,000
Rate of Return on investment	0.15
Price-earning ratio	8

SECTION – C

Answer **any three** questions. **Each** question carries **16** marks.

**(3x16=48)**

- 7. Explain the consequences of excess and inadequate working capital in an organisation.
- 8. Briefly explain the features, merits and demerits of equity shares.
- 9. Prepare cash budget for January to March from the following information :

Particulars	November	December	January	February	March
Sales	2,00,000	2,20,000	1,20,000	1,00,000	1,50,000
Purchases	80,000	70,000	75,000	50,000	60,000
Wages and Salaries	30,000	30,000	24,000	24,000	24,000
Miscellaneous Expenditure	27,000	27,000	21,000	30,000	24,000

**Other Informations :**

- 1) 20% of sales are on cash and balance on credit.
- 2) Credit sales are collected in the month following the month of sales.
- 3) All purchases are on credit and 2 months credit is given by suppliers.
- 4) Lag in payment of wages and salaries one month.
- 5) Debentures worth Rs. 50,000 sold in January.
- 6) Cash balance at the end of December is Rs. 60,000.



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10. Given the following information :

Particulars	S Limited	W Limited
EBIT	Rs. 1,20,000	Rs. 1,20,000
12% Debentures	Rs. 3,00,000	—
Tax rate	40%	40%
Equity Capitalisation rate	—	18%

Compute the value of S Limited and W Limited using NI approach and NOI approach.