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M.Com. 2nd Semester Examination

Commerce

PAPER : COM-201

(Advanced Financial Management)

Full Marks : 40

Time : 2 hours

The figures in the right-hand margin indicate marks.

*Candidates are required to give their answers
in their own words as far as practicable.*

Illustrate the answers wherever necessary.

PAPER : COM-201.1

1. Answer *any two* questions from the following : 5×2

(a) Which are treated in finance as accounting-based risk measures? Discuss.

(b) Citing example of any one type of leverage, explain how leverage can be related to risk.

- (c) With real life examples in Indian banking sector, explain 'reverse merger'.

2. Answer *any one* question from the following : 10

- (a) X Co. Ltd. issues 10% redeemable debentures of ₹ 100 each now. The company has issued a total of 20000 debentures for which interest is paid annually at the end of each year. These debentures are redeemable as per the following schedule :

After 3 years at a discount of 5%

After 4 years at par

After 5 years at a premium of 5%, and

After 6 years at a premium of 10%

If the debenture holders seek redemption equally in the given options of the schedule above, floatation cost amounts to 1% of face value and the company falls in a marginal corporate tax rate of 30%, calculate after-tax cost of capital of the debentures.

- (b) Describe Shareholders Wealth Maximization as the objective of the Management of Finance and discuss how has the Agency Theory refined the expression of this concept.

PAPER : COM-201.2

3. Answer *any two* questions from the following : 5×2

(a) What are different approaches of financing working capital? Discuss in brief.

(b) Why does government takes initiative to ensure finance for working capital for business? Find out the maximum permissible bank finance from the following information : 2+3

<i>Liabilities</i>	<i>₹</i>	<i>Assets</i>	<i>₹</i>
Capital	15,00,000	Fixed Assets	55,00,000
Reserve & Surplus	2,00,000	Investment	20,00,000
Bank Loan	10,00,000	Inventory	2,00,000
Loan Instalment		Debtors	3,00,000
Due	1,00,000	Cash & Bank	40,000
Sundry Creditors	20,000		

(c) Popular Ltd. requires ₹ 8.5 lakh in cash for meeting its transaction needs over the next four months. The firm has sufficient amount of marketable securities to arrange the cash when required. It can earn 20 percent annual yield on its marketable securities. The conversion of marketable securities into cash entails a fixed cost of ₹ 600 per transaction.

Find the optimum cash conversion size and average cash balance of Popular Ltd. Also, find out the total cost at the optimum cash holding level. 2+1+2

4. Answer *any one* question from the following : 10

(a) (i) What is Cash Cycle?

(ii) Find out the length of Operating Cycle from the following information :

- Annual Sales (40% cash sales) : 14 cr.
- Annual Purchase (80% cash purchase) : 10.5 cr.
- Annual Cost of Production ₹ 12.25 cr.
- Annual Cost of Goods Sold ₹ 13 cr.
- Consider 1 year = 350 days
- Components of Working Capital :

Components	2020-21 (₹ lakh)	2021-22 (₹ lakh)
Cash	4	6
Inventory :		
Raw Materials	70	74
Finished Goods	95	105
Debtors	66	62
Creditors	36	44

(iii) How would you compute working capital requirement from the length of operating cycle? 2+6+2

(b) (i) Write three assumptions of Gordon's model. Show that

$$P_0 = \frac{D_1}{K_e - g}$$

where,

P_0 = Price per share at $t = 0$

D_1 = Dividend expected at the end of year 1

K_e = Cost of equity share capital

g = Rate of growth in dividend per share

(ii) Find out the share price if growth rate of a company is 10%, the cost of capital is 20%, EPS ₹ 5 and the company considers 75% dividend payout. (2+5)+3

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