



SN – 360

V Semester B.Com. Examination, November/December 2014  
(2014-15 and Onwards) (Semester Scheme) (Fresh)  
Paper – I : COMMERCE

5.5 Elective – 2 : Advanced Financial Management

Time : 3 Hours

Max. Marks : 100

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

SECTION – A

Answer any ten questions. Each question carries two marks.

(10×2=20)

1. a) What is operating cycle ?
- b) What is risk analysis ?
- c) Give the meaning of capital structure.
- d) Mention the different types of working capital.
- e) What is trading on equity ?
- f) Mention two benefits of holding inventories.
- g) Bring out any two differences between equity shares and debentures.
- h) What is meant by certainty-equivalent co-efficient ?
- i) Mention the techniques of inventory management.
- j) Bring out the difference between levered and non-levered company.
- k) State the assumption of Gardoni approach.
- l) State the formula for determining the value of share as per MM approach.

SECTION – B

Answer any four questions. Each question carries 8 marks.

(4×8=32)

2. Explain the irrelevant concept of capital structure as per MM approach.
3. Briefly explain the merits and demerits of long term loan from financial institutions.

P.T.O.





4. The following information is available in respect of Lakshminarayana Ltd.,

Return on Investment (r) = 10%

Earnings per share (E) = 160

Determine the value of its share using Gardon model assuming the following :

	D/P ratio (1 - b)	Retention ratio (b)	Cost of Equity ( $K_e$ )
a	20	80	20%
b	60	40	16%
c	80	20	14%

5. From the following information, calculate the operating cycle in days and the amount of working capital required.

Period covered	365 days
Total cost of production	Rs. 22,000
Total cost of sales	Rs. 24,000
Raw materials consumption	Rs. 9,200
Average debtors outstanding	Rs. 1,000
Credit sales for the year	Rs. 30,000
Value of average stock maintained :	
Raw materials	Rs. 680
Work in progress	Rs. 760
Finished goods	Rs. 560

Note : Amount given represent lakhs.

6. Calculate the net present value from the following data and offer your comment on two proposals. Each requires the initial outlay of Rs. 24,000.

Year	Project A		Project B	
	Cash inflow	Probabilities	Cash inflow	Probabilities
1	20,000	0.20	28,000	0.20
2	40,000	0.40	36,000	0.50





3	52,000	0.20	44,000	0.15
4	60,000	0.20	52,000	0.15

The cost of capital of both the projects is 12%.

Note : PVF @ 12% for four years are : 0.893, 0.797, 0.712, 0.636.

SECTION - C

Answer any three questions. Each question carries 16 marks. (3x16=48)

- 7. Explain in detail long term sources of raising capital.
- 8. Explain the factors determining working capital requirements.
- 9. A Ltd. and B Ltd. earn 20% profit before interest and tax. Their total assets are Rs. 25 Lakhs (i.e. 25 lakhs each). They are identical except that A Ltd. uses debt capital and B Ltd. does not. They belong to the same risk class. A Ltd. has 9% debentures of Rs. 18,00,000. Assume perfect capital markets, rational investors and so on.

A tax rate of 15% for an all equity company.

Find the value of the company under :

- a) Net income approach
- b) Net operating income approach.

- 10. From the following information, ascertain which project is more risky on the basis of standard deviation and also calculate co-efficient of variation.

Project A		Project B	
Cash inflows	Probabilities	Cash inflows	Probabilities
1,000	0.1	1,000	0.1
2,000	0.3	2,000	0.2
3,000	0.2	3,000	0.4
4,000	0.2	4,000	0.2
5,000	0.2	5,000	0.1