



NS – 469

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V Semester B.Com. Examination, November/December 2016  
(Repeaters) (Prior to 2014 – 15)  
COMMERCE  
Paper – 5.5 : (E – 1) : Advanced Financial Management

Time : 3 Hours

Max. Marks : 100

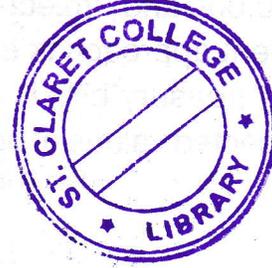
**Instruction :** Answer should be written **completely** either in **English** or in **Kannada**.

SECTION – A

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

(10×2=20)

1. a) What is EOQ ?
- b) What is Net Working Capital ?
- c) What are Bonus Shares ?
- d) What are Pessimistic Cash Flows ?
- e) What is risk ?
- f) What is cost of Equity Capital ?
- g) What is Debtors Management ?
- h) Draw operating cycle of a Trading Unit.
- i) What is VED Analysis ?
- j) What is Optimum Capital Structure ?
- k) What do you mean by dependent cash flows ?
- l) State the Transaction Motives for holding cash.





## SECTION – B

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

(5×5=25)

2. What is Working Capital ? Briefly explain different types of Working Capital.
3. What is Risk Analysis in Capital Budgeting ? Briefly explain risk evaluation approaches.
4. What are Bonus Shares ? Briefly explain the conditions underlying issue of Bonus Shares.
5. The Reliance Power Limited (RPL) is considering an investment in one of two mutually exclusive proposals. Project – A which involves an initial outlay of Rs. 1,70,000 and Project – B which has an outlay of Rs. 1,50,000. The certainty-equivalent approach is employed in evaluating risky investments. The current yield on treasury bills is 0.05 and the company uses this as the riskless rate. The expected values of net cash flows with their respective certainty equivalents are :

Year	Project – A		Project – B	
	Cash Flows	Certainty Equivalent	Cash Flows	Certainty Equivalent
1	90	0.80	90	0.90
2	100	0.70	90	0.80
3	110	0.50	100	0.60

- i) Which project should be acceptable to the company ?
- ii) Which project is riskier ?
6. What is Weighted Average Cost of Capital ? Briefly explain different methods to calculate W.A.C.C.
7. Briefly explain differences between script dividend and bond dividend.
8. Briefly explain short-term sources of working capital.



SECTION – C

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

- 9. Explain Gordon's and Walter's theories of dividend policy and valuation of firm.
- 10. What is receivables management ? Explain the benefits and costs involved in receivables management.
- 11. From the following information prepare a Cash Budget for the month of January, February and March when the opening balance on 1<sup>st</sup> January was ₹ 68,000.

Month	Sales ₹	Purchases ₹	Wages ₹
November	5,55,000	1,88,000	52,000
December	6,21,000	1,99,000	64,000
January	5,92,000	2,10,000	86,000
February	6,38,000	2,02,000	98,000
March	6,96,000	2,48,000	1,21,000
April	7,62,000	2,61,000	1,48,000

**Other Information :**

- i) Credit allowed to customers 2 months and by creditors 1 month.
- ii) Delay in payment of wages  $\frac{1}{2}$  month.
- iii) Advance tax paid in March ₹ 68,000.
- iv) Repair Expenses payable ₹ 10,000 every month.
- v) Building purchased in March ₹ 1,10,000.
- vi) 25% of sales and purchases are made in cash.
- vii) Selling commission is payable @ 5% of sales in the month following the month of collection.
- viii) Final dividend paid in March ₹ 56,000.



12. You are supplied with the following information in respect of Adani Power Ltd. for the ensuing year :

Production of the year – 69,000 units

Finished goods in store – 3 Months

Raw Material in store – 2 Months

Production process – 1 Month

Credit allowed by creditors – 2 Months

Credit given to debtors – 3 Months

Selling price per unit – Rs. 50

Raw Material – 50 percent of selling price

Direct Wages – 10 percent of selling price

Manufacturing and administrative overheads – 16 percent of selling price.

Selling Overheads – 4 percent of selling price.

There is a regular production and sales cycle and wages, overheads accrue evenly. Wages are paid in the next month of accrual. Material is introduced in the beginning of the production cycle.

You are required to ascertain its working capital requirements.

13. What is Credit Evaluation ? Discuss steps involved in it.

#### SECTION – D

**Compulsory** questions. Carries **10** marks.

14. What is Working Capital Management ? What is the need to maintain optimum working capital ? Discuss the consequences of inadequate and excess working capital.