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**CIS 554**

**Fourth Semester M.Com. (IBM) Degree  
Examination, September/October 2022  
(Choice Based Credit System)  
COMMERCE  
Advanced Financial Management**

Time : 3 Hours

Max. Marks : 70

**SECTION – A**

Answer **any four** questions. **Each** question carries **10** marks. Answer to the question should **not** exceed **5** Pages. **(4×10=40)**

1. How wealth maximization objectives superior to profit maximization objective ? Explain.
2. Explain the position of call option holder with change in price on either side.
3. Describe the steps involved in capital budgeting.
4. Discuss the different approaches to deal uncertainty.
5. Bring out and explain different sources of financing.
6. Explain the causes of sickness in Indian Industries.
7. XYZ Ltd. earn Rs. 10 share. Capitalization rate and return on investment are 10 percent and 12 percent respectively. Determine the optimum dividend payout ratio and the price of the shares at the payout. According to Walter's model, when a company can maximize its share price if its return on investment changes either side ?

**SECTION – B**

Answer **any two** questions. **Each** question carries **15** marks. Answer to the question should **not** exceed **7** pages. **(2×15=30)**

8. Bring out and explain the factors influencing dividend policy of a firm.

**P.T.O.**



9. There are two firms U Ltd. and L Ltd. having same NOI of Rs. 20,000 except that L Ltd. is a levered company having a debt of Rs. 1,00,000 at 7 percent and cost of equity of U Ltd. and L Ltd. are 10 percent and 18 percent respectively. Compute how arbitrage process will work.
10. At the beginning of first year, a business enterprise is trying to decide between two potential investments.

**Required :** Assuming a required rate of return of 10% p.a. evaluate the investment proposals under : (a) return on investment, (b) payback period, (c) discounted payback period and d) profitability index .

The forecast details are given below.

|   | <b>Proposal A</b> | <b>Proposal B</b> |
|---|-------------------|-------------------|
|   | <b>Rs.</b>        | <b>Rs.</b>        |
| Cost of investment                      | 20,000            | 28,000            |
| Life                                    | 4 Years           | 5 Years           |
| Scrap value                             | Nil               | Nil               |
| Net income (after depreciation and tax) |                   |                   |
| 1 <sup>st</sup> Year                    | 500               | Nil               |
| 2 <sup>nd</sup> Year                    | 2,000             | 3,400             |
| 3 <sup>rd</sup> Year                    | 3,500             | 3,400             |
| 4 <sup>th</sup> Year                    | 2,500             | 3,400             |
| 5 <sup>th</sup> Year                    | Nil               | 3,400             |

It is estimated that each of the alternative projects will require an additional working capital of Rs. 2,000, which will be received back in full after the end of each project. Depreciation is provided using the straight line method and discount rate is 10 percent.

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