Q.P. Code: 32621

Sixth Semester B.Com. Degree Examination, May/June, 2026

(NEP Scheme)

COMMERCE

(NCF 0210) Advanced Financial Management

Time : 2 Hours

Max. Marks : 60

Instructions to students:

1. **The students should legibly write section number along with question numbers.**
2. **The answers without section number and question numbers will not be valued.**
3. **Section - I Multiple choice questions should be answered in the first page of main answer book and some questions shall not be answered repeatedly.**
4. **Any identifications like marking, ticking, dots etc., in the options of MCQ Questions (Section-I) on the question paper is strictly prohibited. Do not write anything (except register number) on the question paper.**
5. **Ordinary calculator may be used.**

SECTION - I

I. Select the most appropriate answers from the options provided. ONE marks each. **(10x1=10)**

I-1. X Company has 20% Debts and 80% equity in its capital structure. The cost of debts and cost of equity are assumed to be 10% (after tax) and 15% respectively. What is the overall cost of capital?

a) 14% b) 12% c) 13% d) 11%

I-2. A company issues 10% irredeemable preference shares. The face value per share is ₹ 100, but the issue price is ₹ 95. What is the cost of preference share?

a) 10.63% b) 10.73% c) 10.83% d) 10.53%

I-3. If standard deviation of project X is 1,095 and Mean is 6,000, the coefficient of variation is _____

a) 18.75% b) 18.25% c) 17.5% d) 19.25%

I-4. Initial investment ₹ 6,00,000, annual cash inflow of ₹ 2,00,000 for 5 years. Assumed to be discount rate is 10%. NPV of the project is _____

a) 1,60,000 b) 1,58,000 c) 1,48,000 d) 1,68,000

I-5. If r = 12%, k = 10%, the dividend payout ratio as per Walter model is _____

a) 100% b) 50% c) 0% d) 80%

I-6. The apple company has 1,00,000 equity shares of ₹ 100 each and the equity capitalisation rate is 10%, the firm has declared dividend of ₹ 6 per share at the end of the current year. What is the value per share at the end of the year?

a) ₹ 102 b) ₹ 108 c) ₹ 106 d) ₹ 104

I-7. What is the formula for calculating EVA?
a) EVA = NOPAT - (Invested capital * WACC)
b) EVA = NOPAT * (Invested capital - WACC)
c) EVA = NOPAT / (Invested capital + WACC)
b) EVA = NOPAT + (Invested capital / WACC)

I-8. MVA Stands for _____
a) Market Value Added
b) Market Value Ability
c) Both A & B
d) None of the above

I-9. Which of the following is the primary ethical concern in financial management?
a) Maximizing Shareholders Value
b) Avoiding conflicts of interest
c) Achieving high returns for the company
d) Meeting legal compliance requirements

I-10. Transaction cost theory is formally proposed by _____
a) Oliver Williamson
b) Ronald Coase
c) F.W. Taylor
d) None of the above

SECTION - II

II. Answer any FIVE of the following questions. THREE marks each. (5x3=15)

II-1. Mention the assumptions of capital structure theories.

II-2. Write a notice on agency theory.

II-3. State the relationship between EVA and MVA.

II-4. Nagin Co., Ltd. has issued 30,000, 10% irredeemable debentures of ₹ 150 each. The cost of flotation of debentures is 5% of the total issued amounts. The tax rate of the company is 60%. Calculate cost of debenture (kd).

II-5. Projects-X has an investment of ₹ 40,000. The expected cash inflows and the certainty co-efficient are as under:

Year	Cash inflow	Equivalent value
1	25,000	0.8
2	20,000	0.7
3	20,000	0.9

Risk free cutoff rate is 10%. Calculate NPV.

II-6. The following information is available in respect of a firm : Capitalization rate = 10%, Earnings per share = 50. Assured rate of return on investments is 8%.

Show the effect of dividend policy on market price of shares applying Walter's formula when dividend payout ratio is 100%.

II-7. A Co., issues 10,000, 7% preference shares of ₹ 100 each at the premium of 10%. The shares are redeemable after 5 years at par. Compute the cost of preference capital.

II-8. A Alpha company Ltd., as having capital structure as follows:

Equity share capital of ₹ 500 lakhs, Reserves and surplus ₹ 400 lakhs and term loans ₹ 600 lakhs.

The company has invested amounted to ₹ 300 lakhs at the beginning of initial period. Calculate MVA.

SECTION - III

III. Answer any THREE of the following questions. FIVE marks each. (3x5=15)

III-1. Explain the fundamental ethical issues in financial management.

III-2. What is Dividend ? Explain the types of Dividend.

III-3. A company has 25,000 equity shares of ₹ 100 each and 10% debentures of ₹ 20,00,000 in its capital structure. It has an EBIT of ₹ 5,00,000 and the shareholders expected rate of return (Ke) is 15%. Further suppose that the company wants to change the capital structure in the following manner:

a) Issue equity shares worth ₹ 10,00,000 and redeemed debt

b) Borrow ₹ 10,00,000 and buyback shares

Calculate the value of the firm under Net Income Approach.

III-4. A company is considering two mutually exclusive projects X & Y, project X costs ₹ 40,000. Project Y cost ₹ 45,000. You have been given the net present value estimates for each project.

Project X		Project Y	
Estimated NPV	**Probabilities**	**Estimated NPV**	**Probabilities**
3,000	0.1	3,000	0.2
6,000	0.4	6,000	0.3
12,000	0.4	12,000	0.3
15,000	0.1	15,000	0.2

Calculate the Standard Deviation of each project.

III-5. The following information is available of V Ltd., Calculate EVA.

12% debt Capital ₹ 1,200 lakhs
Equity capital ₹ 300 lakhs
Reserves & surplus ₹ 4,500 lakhs
Capital employed ₹ 6,000 lakhs
Risk free rate 8%
Beta factor 2 times
Market rate of return is 20%
Operating profit after tax Rs. 1,260 lakhs
Tax rate 30%

SECTION - IV

IV. Answer the following questions. TEN marks each. **(2x10=20)**

IV-1. What is risks ? Explain the types of risks.

OR

The dividend payout ratio of the following three companies is 50%. From the following other details, calculate the value of an equity share of each of these companies by Walter's Formula.

	Raja Ltd.	Rani Ltd.	Rocket Ltd.
E	₹24	₹24	₹24
R	5%	10%	10%
Ke	10%	15%	10%

IV-2. You are required to determine the Weighted Average Cost of Capital (WACC) of Manavi Ltd. using book value weights and market value weights. The present capital structure of the company is:

Particulars	₹
Equity share (₹ 10 per share)	8,00,000
Preference shares (₹ 100 per share)	2,00,000
Debentures (₹ 100 per debenture)	10,00,000
	20,00,000

All these securities are trade in the capital market. Recent prices are : debentures at ₹ 110, preference shares at ₹ 120 and equity shares at ₹ 22. Anticipated external financing opportunities are:

(i) ₹ 100 per debenture redeemable at par ; 20 years maturity, 8% coupon rate, 4% flotation cost, sale price Rs. 100

(ii) Rs. 100 preference share redeemable at par ; 15 years maturity, 10% dividend rate, 5% flotation costs, sale price ₹ 100

(iii) Equity shares : ₹ 2 per share flotation cost, sale price ₹ 22

In addition, the dividend expected on the equity share at the end of the year ₹ 2 per share, the anticipated growth rate in dividends is 5% and the company has the practice of paying all its earning in the form of dividends. The corporate tax rate is 50%

OR

What is dividend policy ? Explain the factors influencing dividend policy.

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