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I Semester M.Com. Degree Examination, August - 2021

COMMERCE

Advanced Financial Management

(CBCS Scheme 2018-19)

Paper : 1.5

Time : 3 Hours **Maximum Marks : 70**

Instructions to Candidates:

Answer **All** sections.

SECTION - A

Answer any **7** questions. Each question carries **2** marks. **(7×2=14)**

1. a) What is Utility Theory?

b) Discuss Arbitrage process.

c) What do you mean by Simulation?

d) Give the meaning of De-merger?

e) Define leveraged buyout.

f) Discuss the significance of P/E Ratio.

g) What do you mean by Synergy?

h) Differentiate levered and unlevered firm.

i) What are Margins?

j) What do you mean by sequential investment decisions?

SECTION - B

Answer any **4** questions. Each question carries **5** marks. **(4×5=20)**

2. Mr. X is considering two mutually exclusive projects A and B. You are required to advise him regarding the acceptability of project.

Particulars	**Project A**	**Project B**
Cost	5,00,000	5,00,000
Forecast of cash flows PA for 5 years		
Optimistic	3,00,000	4,00,000
Most Likely	2,00,000	2,00,000
Pessimistic	1,50,000	50,000
Cutoff rate is 15%		

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3. Companies U and L are identical in every respect except that the firm 'U' does not use any debt in its financing, while firm 'L' has 2,50,000, 6% debentures in its financing. Both the firms have earnings before interest and tax of Rs. 75,000 and the equity capitalization rate is 10%. Assuming the corporate tax is 50% calculate value of firms.

4. Explain in brief the various types of Hedging instruments in derivatives market.

5. AMIGO products Ltd. wants to raise Rs. 50. Lakhs for a diversification of project. Current estimates of EBIT from the new project are Rs. 11 Lakhs PA.

Cost of debt will be 15% for amounts up to and including Rs. 25 Lakhs and 18% for additional amounts above 25 lakhs. The equity shares (face value of Rs.10) of the company have a current market value of Rs. 40. This is expected to fall to Rs. 32 if debts exceeding Rs. 25 lakhs are raised. The following options are under consideration of the company

Option	**Debt**	**Equity**
1	50%	50%
2	40%	60%
3	60%	40%

Determine EPS for each option and state which option should be adopted by the company. Tax rate is 50%.

6. What is finance? Write a note on importance of finance in an organization.

7. What are the factors influencing investment decisions under Capital Rationing?

SECTION - C

Answer any **3** questions. Each question carries **12** marks. **(3×12=36)**

8. ABC company with a 12% of cost of funds and limited investment funds of Rs. 4,00,000 is evaluating the desirability of several investment proposals.

Project	**Initial Investment**	**Life (years)**	**Year-end Cash Inflow**
A	3,00,000	2	1,87,000
B	2,00,000	5	66,000
C	2,00,000	3	1,00,000
D	1,00,000	9	20,000
E	3,00,000	10	66,000

a. Rank the projects according to profitability index and NPV methods.

b. Determine the optimal investment package.

c. Which projects should be selected, if the company has Rs. 5,00,000 as the size of its capital budget?

9. A Corporation plans to acquire **B** Corporation. The following information is available

Particulars	**A Corporation**	**B Corporation**
Total Current Earnings	Rs. 50 Million	Rs. 20 Million
Number of outstanding shares	20 million	10 million
Market price per share	Rs. 30	Rs. 20

a. What is the maximum exchange ratio acceptable to the shareholders of A Corporation if the PE ratio of the combined entity is 12 and there is no synergy gain?

b. What is the minimum exchange ratio acceptable to the shareholders of B Corporation if the PE ratio of the combined entity is 11 and there is a synergy benefit of 5 percent?

c. Assuming that there is no synergy gain, at what level of PE multiple will the lines ER1 and ER2 intersect?

10. The following is the capital structure of a company.

Sources	**Book Value (Rs.)**	**Market Value (Rs.)**
Equity Share Capital of Rs. 100 each	8,00,000	16,00,000
9% Cumulative Preference Share of Rs. 100 Each	2,00,000	2,40,000
11% Debentures	6,00,000	6,60,000
Retained Earnings	4,00,000	----------
Total	**20,00,000**	**25,00,000**

The current market price of company's equity share is Rs. 200. During the last year the company has paid the equity dividend @ 25%. It is observed that the dividend is likely to grow 5% per annum. The corporate tax rate is 30% and shareholders personal Income tax rate is 20%. You are required to compute.

a. Cost of capital of each source of income.

b. Weighted average cost of capital on the basis of book value weights

c. Weighted average cost of capital on the basis of market value weights.

11. A company is considering which of the two mutually exclusive projects should be undertaken. The finance director thinks that the project which had higher NPV should be chosen; whereas the MD thinks that the one with the higher IRR should be undertaken especially for both projects have the same initial outlay and length of life. The company anticipates a cost of capital of 10% and the net after tax cash flows of the projects are as follows :

Year	Project X (Rs.)	Project Y (Rs.)
1	35,000	2,18,000
2	80,000	10,000
3	90,000	10,000
4	75,000	4,000
5	20,000	3,000

a. Calculate IRR and NPV of each project.

b. State the reasons which projects should be recommended.

12. Briefly explain Modigliani Millers approach theory of Capital Structure with a diagram.

70555

Reg. No.

I Semester M.Com. Degree Examination, June/July - 2022

COMMERCE

Advanced Financial Management & Practices

(CBCS Scheme)

Paper : 1.5

Time : 3 Hours **Maximum Marks : 70**

SECTION - A

Answer any **Seven** questions out of Ten. Each question carries **Two** marks. **(7×2=14)**

1. a) What do you mean by 'Optimum Capital Structure'?

   b) What is capital rationing?

   c) Give the meaning of synergy in the context of Merger and Acquisitions.

   d) What do you mean by Net Working capital?

   e) What is LBO and MBO?

   f) What is Spinoff?

   g) What is Over Capitalisation?

   h) What do you mean by Sequential Investment Decision?

   i) What is dividend policy?

   j) State two objectives of ploughing back of earnings.

SECTION - B

Answer any **Four** questions out of **Six**. Each question carries **Five** marks. **(4×5=20)**

2. What are the objectives of corporate financial decisions.
3. Briefly explain the various factors which are influencing increase in working capital requirement.
4. Explain the major factors responsible for corporate Restructuring.
5. The earnings per share of a company is Rs. 80 and the rate of capitalization applicable to the company is 12%. The company has before it an option of adopting a payment ratio of 25% (or) 50% (or) 75%. Using Walter's formula of dividend payout, compute the market value of the company's share of the productivity of retained earnings (i) 12% (ii) 8% (iii) 5%.

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6. A company with EBIT of Rs. 5,00,000 is considering different possible capital structures given below :

Capital Structure	Amount of Debt. in Capital Structure	Cost of debt (K_d)	Cost of Equity (K_e)
I	1,00,000	10%	16%
II	2,00,000	10%	16%
III	3,00,000	11%	18%
IV	4,00,000	12%	20%
V	5,00,000	14%	23%

Determine optimal capital structure for the company.

7. Shriram Industries has earmarked Rs. 3,20,000 for Capital expenditure during the year 2021. The following proposal has been short listed for consideration and selection :

Project	Cost (Rs.)	NPV (Rs.)	PI
A	1,00,000	11,000	1.110
B	1,50,000	16,000	1.106
C	70,000	3,000	1.043
D	40,000	3,000	1.075
E	60,000	4,000	1.067

Select the best combination in order to maximize the wealth of shareholders, given that all projects are divisible, and All projects are independent.

SECTION - C

Answer any **Two** questions out of **Four**. Each question carries **Twelve** marks. **(2×12=24)**

8. What do you mean by Finance function? Discuss about the scope of finance function in a business enterprise. Should the goal of finance decision making be profit maximisation or wealth maximisation?

9. Q Ltd. wants to acquire R Ltd. and has offered a swap ratio of 1:2 (0.5 shares for every one share of R Ltd.). Following information is provided :

	Q Ltd.	**R Ltd.**
Profit after tax	Rs. 18,00,000	Rs. 3,60,000
Equity shares outstanding (Nos.)	6,00,000	1,80,000
EPS	Rs. 3	Rs.2
PE Ratio	10 times	7 times
Market price per share	Rs. 30	Rs. 14

Required :

a) The number of equity shares to be issued by Q Ltd. for acquisition of R Ltd.

b) What is the EPS of Q Ltd. after the acquisition?

c) Determine the equivalent earnings per share of R Ltd.

d) What is the expected market price per share of Q Ltd. after the acquisition, assuming its PE multiple remains unchanged?

e) Determine the market value of the merged firm.

10. Shivaji Ltd. wants to install a new machine in the place of old one which has become absolute. The company made extensive enquiries and from the replies received short listed two offers. The two models differ in cost, output, and anticipated net revenue. The estimated life of both the machines is five years. The following are the details about these two models.

Machine	Cost	Anticipated after tax cash flow (Rs. in Lakhs)				
		Year 1	Year 2	Year 3	Year 3	Year 4
A	25	-	5	20	14	6
B	40	10	14	16	17	12

The company's cost of capital is 16%. You are required to make an appraisal of the two offers and advise the firm by using NPV and IRR techniques.

11. Write short notes on :

a) EBIT - EPS Approach.

b) Theories of dividend.

c) Techniques for risk analysis in capital budgeting.

SECTION - D

Answer the following question. **(1×12=12)**

12. Shivam Ltd., is considering two mutually exclusive projects A and B. Project A costs Rs 36,000 and project B Rs 30,000. You have been given below the Net present value, Profitability distribution for each project:

Project A		Project B	
NPV Estimate (Rs.)	Probability	NPV Estimate (Rs.)	Probability
15000	0.2	15000	0.1
12000	0.3	12000	0.4
6000	0.3	6000	0.4
3000	0.2	3000	0.1

a) Compute the expected net present value of Projects A and B.

b) Compute the risk attached to each project i.e., Standard Deviation of each probability distribution.

c) Compute the profitability index of each project.

d) Which project do you recommend? State with reason.

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70555

Reg. No. [ ]

I Semester M.Com. Degree Examination, April/May - 2024

COMMERCE

Advanced Financial Management and Practices

(CBCS Scheme)

Paper : 1.5

Time : 3 Hours **Maximum Marks : 70**

SECTION - A

Answer any SEVEN of the following. Each question carries 2 marks. **(7×2=14)**

1. a) State any two differences between pecking order and Trade - Off Theory.

   b) Give the meaning of Optimal Capital Structure.

   c) What is Modified IRR?

   d) Mention any two factors which affect the capital budgeting decision.

   e) What do you mean by Sensitivity Analysis?

   f) Give the meaning of Hiller Model.

   g) What is Divestment in Corporate Restructuring?

   h) Mention the Types of Equity Carve-out.

   i) What is Scrip Dividend?

   j) Mention any two techniques used to manage working capital in the business.

SECTION - B

Answer any FOUR of the following. Each question carries 5 marks. **(4×5=20)**

2. XYZ has a total capitalization of Rs. 5 lakh consisting entirely of Equity capital Share Price (Rs. 10 each). It is planning to raise additional funds of Rs.2.5 lakh for implementing capital budgeting project. There are two alternatives available to the company.

   a) Entire Equity share capital by issue of shares.

   b) Entire amount by Debt at 10% interest.

   The Company is in the tax bracket of 50%. Calculate indifference point.

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3. The initial cash outlay of a project is Rs. 2,00,000 and it generates cas inflow of Rs. 80,000, Rs. 60,000, Rs. 1,00,000 and Rs. 40,000 at the end of year 1,2,3, and 4 respectively. Assume 12% rate of discount. Calculate profitability Index.

4. Explain the concept of Spin off and Sell off in Corporate Restructuring.

5. If investment proposal is Rs. 9,00,000 and risk free rate is 7%, CALCULATE net present value under Certainty Equivalent technique.

Year	Expected cash flow (Rs.)	Certainty Equivalent Coefficient
1	2,00,000	0.92
2	3,00,000	0.87
3	4,00,000	0.76
4	5,00,000	0.74

6. Z Ltd. belongs to a risk class of which the appropriate rate is 12%. Good Luck limited has 5,000 shares selling at Rs. 100 each. The Company is contemplating the declaration of Rs. 6 per share as dividend at the end of the current year.

   a) Calculate the price per share: Assuming

      i) Dividends are declared and

      ii) Dividends are not declared.

   b) Find out the number of shares to be issued, if the company has net income of Rs. 50,000 and it has an investment proposal costing Rs. 1,50,000.

   You may assume MM model assumptions.

7. Describe the Traditional view of Capital Structure theory.

SECTION - C

Answer any TWO of the following. Each question carries 12 marks. **(2×12=24)**

8. Working Capital is like a diet for the Company, if you do not manage it properly; it will kill the growth . Justify the statement.

9. X Ltd. has a capital budget of Rs. 1.5 crore for the year. From the following information relating to six independent proposals, select the projects if

   i) The projects are divisible and

   ii) The projects are indivisible.

Proposal	Investments (Rs.)	NPV (Rs.)
A	70,00,000	30,00,000
B	25,00,000	16,00,000
C	50,00,000	20,00,000
D	20,00,000	10,00,000
E	55,00,000	45,00,000
F	75,00,000	-25,00,000

10. Logo Company limited has an investment proposal that requires an investment outlay of Rs. 2,50,000.

The following information is available.

Year 1 :

Possible Event	Cash Flows (Rs.)	Probability
P	1,00,000	0.2
Q	1,25,000	0.4
R	1,80,000	0.4

Year 2 :

Event	Rs. 1,00,000		Rs. 1,25,000		Rs. 1,80,000	
	CFAT(Rs.)	Probabilities	CFAT(Rs.)	Probabilities	CFAT(Rs.)	Probabilities
P	45,000	0.2	1,40,000	0.2	1,90,000	0.3
Q	1,20,000	0.3	1,80,000	0.6	2,10,000	0.3
R	1,80,000	0.5	1,90,000	0.2	2,60,000	0.4

You are required to advise the company regarding the financial feasibility of the project using decision tree approach. Company's cost of capital is 10%.

11. Sanjay Company limited, is being acquired by Deepak company on a share exchange basis. Their selected data are as allows:

Particulars	Deepak	Sanjay
Profit after tax (Rs. In Lakhs)	78	29
Number of shares (Lakh)	14	11.8
Earnings per share	7.8	3.5
Price - Earnings Ratio	17.5	10.5

Determine:

a) Pre-merger Market value per share.

b) The maximum exchange ratio, Deepak Company should offer without dilution of

i) EPS, ii) Market value per share.

SECTION - D

Answer the following question. **(1×12=12)**

12. Star Ltd. needs Rs. 15 lakh for expansion. The expansion is expected to yield an annual EBIT of Rs. 2,40,000. In choosing a financial plan, Star Ltd. has an objective of maximizing earnings per share. It is considering the possibility of issuing equity shares and raising debt of Rs. 1,50,000 or Rs. 6,00,000 or Rs. 9,00,000. The current market price per share is Rs. 37.5 and it is expected to drop by 30 if the funds are borrowed in excess of Rs. 7,50,000. Funds can be borrowed at the rated indicated below,

a) Upto Rs. 1,50,000 at 9%

b) Over 1,50,000 upto Rs. 7,50,000 at 14% and

c) Over Rs. 7,50,000 at 20%.

Determine the EPS for the three financing alternatives and advice the company to opt the best alternative among all for its expansion.