M.Com.

I Semester End Examination - May 2022
Advanced Financial Management & Practices

Course Code: MCM105T **QP Code: 11016**
Time: 3 hours **Total Marks: 70**

Section -A

1. Answer any seven questions. Each question carries 2 marks (7X2=14)

a) Define Financial Management
b) What is optimum capital structure?
c) What is Modified IRR?
d) What is Arbitrage?
e) What is Bond Dividend?
f) What do you mean by Hostile Takeover?
g) What is Homemade Leverage?
h) What do you mean by Unsystematic Risk?
i) What is Capital Rationing?
j) Give the meaning of Net working capital

Section B

Answer any four questions. Each question carries 5 marks (4X5=20)

2. Explain the trade off theory and pecking order theory

3. What is optimal capital structure & discuss the factors affecting optimal capital structure

4. Write a note on Decision tree Analysis? Explain the steps involved in a decision tree analysis

5. X Ltd. Producing article mostly by manual labour and is considering to replace it by a new machine. There are 2 alternative models M&N of new machine. Prepare a statement of profitability showing the pay back period for the following information.

Particulars	M	N
Estimated Life	4 years	5 years
Cost of a machine	₹90,000	₹1,80,000
Estimated savings:		
Scrap	₹ 5000	₹ 8000
Indirect wages	₹ 60,000	₹ 80,000
Total savings:	₹65000	₹ 88,000
Additional cost of maintenance	₹ 8,000	₹ 10,000
Additional cost of supervision	₹ 12,000	₹ 8,000

6. From the following information of two project, you are required to state which project is riskier & why?

Possible situation	Project P	Project Q
Worst	18,300	-
Most Likely	24,300	24,300
Best	30,300	48,300

Each Project involves an initial cash outflow of ₹ 1,30,000. The project required rate of return is 12%, Project life period is 10 years.

Present value for 10 years at 12% is 5.650

7. A company is considering two investments A & B each costing ₹ 1,00,000 the expected cash flows for 4 years are given below

Year	Cashflow for A	Cashflow for B
1	40,000	50,000
2	35,000	40,000
3	25,000	30,000
4	20,000	30,000

The company target return is 10%, the risk premium rate is 2% & 8% respectively, which of the project is preferable using risk adjusted discount rate method.

Section -C

Answer any two questions. Each question carries 12 marks **(2X12=24)**

8. The firms A & B are identical in all respect including risk factor except for debt equity mix. Firm A has issued 12% debenture of ₹ 15,00,000 while B has issued only equity. Both the firms earn 30% Earnings before interest and taxes on their total asset of ₹ 25,00,000. Assuming tax rate of 50% and equity capitalisation rate 20% for all equity company. You are required to compute the value of the firm using Net income approach & Net operating income approach.

9. A Company requires ₹12, 00,000 for installation of new factory which would yield of annual EBIT of ₹ 2,00,000. The company has the objective of maximising the EPS. It is considering the possibility of issuing equity shares plus raising debt of ₹ 2,00,000 or ₹ 6,00,000 or ₹ 10,00,000. The current market price per share ₹ 40 which is expected to drop to ₹ 25 per share if the market borrowing where to exceed ₹ 7, 50,000 the cost of borrowing is indicated as under:

i) Up to ₹ 2, 50,000 10% p.a

ii) Between ₹ 2, 50,000& ₹ 6, 25,000 at 14% p.a

iii) Between ₹ 6, 25,000& 10, 00,000 at 16% p.a

Assume income tax @ 50%. Determine EPS under three plans and comment

10. Volo Ltd. Wishes to acquire Scania Ltd., a very big company with Automobile growth prospects. The relevant information for both the companies is as follows:

Company	Equity Shares Outstanding	Share price (₹)	Earnings after taxes	EPS (₹)
Volvo Ltd.	10,00,000	25	20,00,000	2
Scania Ltd.	1,00,000	10	2,00,000	2

Volo Ltd. is considering 3 different acquisition plans:

a) Pay ₹12.5 per share for each target share.

b) Exchange ₹ 25 cash and one share of Volo Ltd. for every four shares of Scania Ltd.

c) Exchange 1 share for every two shares of Scania ltd.

i) What will be the Volo Ltd. EPS under each of the three plans?

ii) What will be the share prices of Volo Ltd.under each of the three plans, if its current P/E ratio remains unchanged?

11. Explain in detail the different kinds of capital structure theories

Section -D

Answer the following **(1X12=12)**

12. The Delta corporation is considering an investment in one of the two mutually exclusive proposals. Project A which involves an initial outlay of ₹ 1,70,000 and project B which has an outlay of ₹ 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 risk less rate. The expected values of net cash flows with their respective certainty equivalents are

Project A		**Project B**	
Cash flow (in 1000's)	Certainty equivalent	Cash flow (in 1000's)	Certainty equivalent
90	0.8	90	0.9
100	0.7	90	0.8
110	0.5	100	0.6

i) Which project should be acceptable to the company?

ii) Which project is risker? How do you know?

iii) If the company has to use the risk adjusted discount rate method, which project would be analysed with higher rate?