UUCMS No

B.M.S COLLEGE FOR WOMEN, AUTONOMOUS

BENGALURU – 560004

SEMESTER END EXAMINATION – APRIL/MAY- 2023

M.Com.-I Semester

ADVANCED FINANCIAL MANAGEMENT& PRACTICES

Course Code: MCM105T **QP Code:11016**

Duration: 3 Hours **Max. Marks: 70**

Section -A

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

1.

a) Define Finance
b) What is time value of money?
c) What is arbitrage process?
d) What do you mean by capital budgeting?
e) What is sensitivity analysis?
f) Give the meaning of De-Merger
g) What is scrip dividend?
h) What is decision tree?
i) What is Capital rationing
j) What do you mean by systematic risk

Section B

II. Answer any four questions. Each question Carries 5 marks: (4X5=20)

2. Explain the reasons for merger

3. Explain the types of Dividend policy

4. There are two firms X and Y which are exactly identical except that X does not use any debt in its financing, while Y has Rs.1,00,000 5% Debentures in its financing. Both the firms have earnings before interest and tax of Rs.25,000 and the equity capitalization rate is 10%. Assuming the corporation tax of 50% calculate the value of the firm using M & M approach.

5. A company is considering a cost saving project. This involves purchasing a matching costing rupees 7,000 which will result in annual savings on wage cost of rupees 1,000 and an material cost rupees 4,000.
The following forecasts are made of the rates of inflation each year for the next five years.

costs	Inflation rates
Wage costs	10%
Material cost	5%
General prices	6%

The cost of the capital of the company is 15%.

Evaluate the project assuming that the machine has a life of five years.

6. Company X is considering the purchase of company Y.
The following are the financial data of the two companies

Particulars	**Company X**	**Company Y**
Number of shares	4,00,0000	1,00,0000
Earnings per share (EPS)	Rupees 6.00	Rupees 4.50
Market Value per share	Rupees 30.00	Rupees 20.00

Assuming that the management of the two companies have agreed to exchange shares in proportion to.

a. The relative earnings per share of the two firms
b. 4 shares of company X for every 5 shares held In Company Y

You are required to illustrate and comment on the impact of merger on the EPS.

7. A company has Rs. 7 crore available for investment. It has evaluated its options and has found that only 4 investment projects given below have positive NPV. All these investments are divisible. Advise the management which investment(s)/ projects it should select.

Project	Initial investment (Rs. Crore)	NPV (Rs. Crore)	PI
X	3.00	0.60	1.20
Y	2.00	0.50	1.25
Z	2.50	1.50	1.60
W	6.00	1.80	1.30

Section -C

I. Answer any two questions. Each question carries 12 Mark (2X12=24)

8. 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

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

9. Companies X and Y are identical in all respects including risk factors except for debt/equity, X having issued 10% debentures of rupees 18 lakhs while Y has issued only equity. Both the companies earn 20% EBIT on their total assets of rupees 30 lakhs.
   Assuming a tax rate of 50% and capitalization rate of 15% for all equity company, compute the value of companies X& Y using

a. NI Approach
b. NOI approach

10. X and Y limited s purchasing a business an has asked to advice and an average amount of working capital. your given the following estimates and are instructed to add 10% to allow for contingencies.

Particulars	amount
1.Average amount in stacks Finished goods Stores and materials	 5,000 8,000
2.Avarage credit given Inland Sales ,6 weeks credit Export sales 1.5 weeks credit	 3,12000 78,000
3.Avarage time lag in payment of expenses Wages, 1.5 weeks stock and materials 1.5 months rent and royalties,6 months Clerical Staff ,0.5 months Manager,0.5 months Misl expenses 1.5months	 2,60,000 48,000 10,000 62,400 4,800 48,000
4.Payment in advance Sundry expenses(paid quarterly in advance) Undrawn profits	 8,000 11,000

Set up your calculation the average amount of working capital required.

11. A Business man from Chennai wishes to sell his products in Bangalore. He can set up a showroom in the city or can sell through a wholesaler. Setting up a show room will costs of Rs. 6, 00,000 with a 55% Probability of success. If the showroom succeeds, he can gain a net profit of Rs. 10, 00,000 per year. If it fails, he can either shutdown the showroom or rent it out for annual rent of Rs. 3, 60,000 (for the rest of the year). The Probability that he gets rent for the show room is 40%.

    If he sells through a wholesaler, he incurs Rs.3,00,000 initial costs. The chance of selling successfully are 45% with a net profit of Rs. 5, 50,000 per year.

    You are required to advise the company regarding the financial feasibility of the project using decision tree approach

Section –D

(Compulsory skill based question)

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

12. A CO is considering 2 mutually exclusive projects X AND Y. Project X costs Rs.30,000 and project Y Rs.36000

PROJECT A **PROJECT B**

Cash inflow	PROB	CASH INFLOW	PROB
3000	0.1	3000	O.2
6000	0.4	6000	O.3
12000	0.4	12000	O.3
15000	0.1	15000	0.2

a. compute the standard deviation of each project
b. compute the coefficient of variation
c. Which project do you consider more risky & why?