Q.P. Code : 60555

First Semester M.Com. Degree Examination, January/February 2020

(CBCS Scheme)

Commerce

Paper 1.5 — ADVANCED FINANCIAL MANAGEMENT

Time : 3 Hours] *[Max. Marks : 70*

SECTION – A

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

(a) Define Financial Management.

(b) What is time value of money?

(c) What is Modified IRR?

(d) What is Arbitrage?

(e) Distinguish between call option and put option.

(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 financial asset with example.

SECTION – B

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

2. Explain the different types of derivates which can be used as hedging instrument.

3. What is optimal capital structure and 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. Calculate the degree of financial leverage, operating leverage and combined leverage for the following firms and interpret the result.

Particulars	P	Q	R
Output in units	1,50,000	37,500	2,50,000
Fixed cost (₹)	1,00,000	1,50,000	37,500
Variable cost (₹ per unit)	0.5	3.75	0.05
Interest expenses (₹)	12,500	20,000	–
Selling price per unit (₹)	1.50	12.50	0.25

6. From the following information of two project, you are required to state which project is riskier and 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	Cash flow for A	Cash flow 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% and 8% respectively, which of the project is preferable using risk adjusted discount rate method.

SECTION – C

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

8. The firms A and 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 and 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 maximizing 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 :

(a) Up to ₹ 2,50,000 10% p.a.

(b) Between ₹ 2,50,000 and ₹ 6,25,000 at 14% p.a

(c) Between ₹ 6,25,000 and 10,00,000 at 16% p.a

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

10. Volvo 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

Volvo 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 Volvo Ltd. for every four shares of Scania Ltd.

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

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

(ii) What will be the share prices of Volvo 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.

12. Discuss the various methods of corporate valuation.
