



PG – 874

II Semester M.Com. Degree Examination, June 2015

COMMERCE

Paper : 2.2 : Advanced Financial Management

Time : 3 Hours

Max. Marks : 80

*Instruction : Answer all Sections.*

SECTION – A

1. Answer **any ten** of the following sub-question in about **three to four** lines **each**.

Each sub-question carries **two** marks.

(10×2 = 20)

- a) Define capital market.
- b) State the functions of the financial system.
- c) Why is dividend policy important for a firm ?
- d) What are the different techniques of demergers ?
- e) Define synergy.
- f) What is long forward position and short forward position ?
- g) 'The equity capital is cost free'. Give reasons.
- h) What is an annuity due ?
- i) What is risk premium ?
- j) Define cost of capital.
- k) How should depreciation be treated in capital budgeting ?
- l) Define capital rationing.

P.T.O.



## SECTION – B

Answer **any three** of the following question and **each** question carries **five** marks.

**(3×5 = 15)**

2. What is sensitivity analysis ? What are its advantages and limitations ?
3. If the use of financial leverage magnifies the earnings per share under favourable economic conditions, why companies do not employ very large amount of debt in their capital structure ?
4. The share of Hypothetical Company Limited has the following anticipated returns with associated probabilities : Calculated return and risk.

<b>Return (%)</b>	- 20	- 10	10	15	20	25
<b>Probability</b>	0.05	0.10	0.20	0.25	0.20	0.15

5. A company requires Rs. 100 lakhs which is planned to be raised as follows :  
Rs. 30 lakhs equity, Rs. 30 lakhs reserves, Rs. 5 lakhs preference shares, Rs. 35 lakhs debt at a cost of 12%, 14% and 16% (Before tax) respectively. Find out the overall cost of capital. The tax rate applicable is 30%. Compute WACC.
6. You have borrowed Rs. 8,00,000 for 10 years. If the interest rate is 12% p.a. What is your equated annual instalment ? If the loan is pre-closed at the end of 4<sup>th</sup> year how much principal amount needs to be repaid.

## SECTION – C

Answer **any three** of the following question and **each** question carries **fifteen** marks.

**(3×15 = 45)**

7. Calculate NPV if the discount rate is 12%, IRR and find out MIRR at IRR.

<b>Yr.</b>	0	1	2	3	4	5	6
<b>CFs</b>	- 200	- 80	80	100	150	100	120



8. Varuna Ltd.'s capital structure is as follows :

Source	Rs. in lakhs
Equity	100
10% preference	50
Reserves	10
12% debentures	40
14% term loan	50

**Additional information :**

The current MPS of the company is Rs. 40 expected dividend is Rs. 3 p.s. and the dividend record for last 6 years.

Year	1	2	3	4	5	6
Dividend in Rs.	1.95	2	2.2	2.35	2.55	3

Preference is redeemable after 5 years at par and is currently quoted at Rs.80 per share. The debentures are redeemable at premium of 5% after 6 years and current price is Rs. 90. Both debentures and preference have face value of Rs. 100. The tax rate applicable is 35%. Find out the WACC of the capital structure.

- 9. The firm is considering two alternative financial plans :i) Either to raise the entire funds by issuing 100,000 ordinary shares at Rs. 10 per share, or ii) To raise Rs. 5,00,000 by issuing 50,000 ordinary shares at Rs. 10 per share and borrow Rs. 5,00,000 at 15 percent rate of interest. The tax rate is 50 percent. Determine the indifference level of EBIT and also analyse the impact on EPS, ROE (EBIT – EPS analysis) if the two alternative financial plans are considered under two levels of EBIT, Rs. 2 and Rs. 4 lakhs. Tax rate is 40%.
- 10. “Buying out of a firm for merger is a type of investment decision”. Do you agree ? Elucidate.
- 11. “Financial Manager can use dividend policy to maximize the wealth of the equity shareholders”. Explain.

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