II Semester M.Com. Examination, July 2017
(2007-08 Scheme) (Repeaters)
COMMERCE
Paper – 2.2 : Advanced Financial Management

Time : 3 Hours   Max. Marks : 80

SECTION – A

1. Answer **any ten** of the following in about **3-4** lines **each**. **Each** sub-question carries **two** marks. **(10×2=20)**

   a) Explain 'law of one price'.

   b) Define 'financial leverage'.

   c) What is the basic difference between NPV and IRR ?

   d) What are the measures of risk ?

   e) What is sensitivity analysis ?

   f) What is MB ratio ?

   g) What is multiple IRR ?

   h) What is market value of a firm ?

   i) What is enterprise capitalization ?

   j) What is deep out ratio ?

   k) What are stock futures ?

   l) What are interest rate futures ?

SECTION – B

Answer **any three** of the following. **Each** question carries **5** marks. **(3×5=15)**

2. Explain the NI approach to capital structure.

3. Explain the procedure for estimating cash flow for a project.

4. Find the portfolio return and risk if the correlation between the returns of two stock A and B is as follows. The weight in the portfolio is 50% for each stock.

	A	**B**
Return	15%	19%
S.D.	10	25

5. Suppose initial out lay on a project is Rs. 10 million and after tax cash flows over the life of the project is as follows :

Years	1	2	3	4	5
ATCF	– ₹ 2 million	₹ 5 million	₹ 6 million	₹ 8 million	₹ 4 million

The project is terminated in year five and its salvage value is ₹ 2 million. The discount rate is 12 percent. Calculate projects NPV.

6. Explain the Due Diligence process in a Merger and Acquisition case.

SECTION – C

Answer **any three** of the following in about **3** pages **each**. **Each** question carries **15** marks. **(3×15=45)**

7. Explain the accounting treatment of merger under purchase method and pooling of interest method in the given case.

P acquires Q for ₹ 4 million in stock and the assumption of ₹ 2 million in Q's liabilities.

Before the merger Balance Sheet (in million) is as follows :

	P coy	**Q coy**
	₹	₹
Tangible and total assets	10.0	5.0
Liabilities	4.0	2.0
Shareholder's equity	**6.0**	**3.0**

8. Distinguish between, forwards, futures, options and swaps. Do you think derivative instruments like CDO's were mainly responsible for the global financial collapse of 2008.

9. Given the cash flows from an investment decision, at 12% discount rate and an initial outlays of ₹ 5,000, decide whether the machine should be produced.

Yr.	**Cash flow**
	₹
1	700
2	900
3	1000
4	1000
5	1000
6	1000
7	1250
8	1375

10. A company wishes to determine an appropriate capital structure. It can issue 16% debt or 15% preferred stock. The total capitalization of the company will be ₹ 5 millions and common stock can be sold at ₹ 20 per share. The company is expected to have a 50 percent tax rate. Four possible capital structure being considered are as follows :

Plan	**Debt**	**P. Stock**	**Equity**
1	0%	0%	100%
2	30	0	70
3	50	0	50
4	50	20	30

Required : Construct an EBIT – EPS chart for the four plans. (EBIT is expected to be ₹ 1 million). Identify the relevant indifference point.

11. Illustrate the pay-off for a call-option and put option with identical premium, strike price and market price.