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I Semester M.Com. Degree Examination, April/May - 2024

COMMERCE

Advanced Financial Management and Practices

(CBCS Scheme)

Paper : 1.5

Time : 3 Hours

Maximum Marks : 70

SECTION - A

Answer any SEVEN of the following. Each question carries 2 marks. (7×2=14)

1. a) State any two differences between pecking order and Trade - Off Theory.
- b) Give the meaning of Optimal Capital Structure.
- c) What is Modified IRR?
- d) Mention any two factors which affect the capital budgeting decision.
- e) What do you mean by Sensitivity Analysis?
- f) Give the meaning of Hiller Model.
- g) What is Divestment in Corporate Restructuring?
- h) Mention the Types of Equity Carve-out.
- i) What is Scrip Dividend?
- j) Mention any two techniques used to manage working capital in the business.



SECTION - B

Answer any FOUR of the following. Each question carries 5 marks. (4×5=20)

2. XYZ has a total capitalization of Rs. 5 lakh consisting entirely of Equity capital Share Price (Rs. 10 each). It is planning to raise additional funds of Rs.2.5 lakh for implementing capital budgeting project. There are two alternatives available to the company.
 - a) Entire Equity share capital by issue of shares.
 - b) Entire amount by Debt at 10% interest.
 The Company is in the tax bracket of 50%. Calculate indifference point.

[P.T.O.]



3. The initial cash outlay of a project is Rs. 2,00,000 and it generates cash inflow of Rs. 80,000, Rs. 60,000, Rs. 1,00,000 and Rs. 40,000 at the end of year 1,2,3, and 4 respectively. Assume 12% rate of discount. Calculate profitability Index.
4. Explain the concept of Spin off and Sell off in Corporate Restructuring.
5. If investment proposal is Rs. 9,00,000 and risk free rate is 7%, CALCULATE net present value under Certainty Equivalent technique.

Year	Expected cash flow (Rs.)	Certainty Equivalent Coefficient
1	2,00,000	0.92
2	3,00,000	0.87
3	4,00,000	0.76
4	5,00,000	0.74

6. Z Ltd. belongs to a risk class of which the appropriate rate is 12%. Good Luck limited has 5,000 shares selling at Rs. 100 each. The Company is contemplating the declaration of Rs. 6 per share as dividend at the end of the current year.

a) Calculate the price per share: Assuming

- Dividends are declared and
- Dividends are not declared.

b) Find out the number of shares to be issued, if the company has net income of Rs. 50,000 and it has an investment proposal costing Rs. 1,50,000.

You may assume MM model assumptions.

7. Describe the Traditional view of Capital Structure theory.

SECTION - C

Answer any TWO of the following. Each question carries 12 marks. (2×12=24)

8. Working Capital is like a diet for the Company, if you do not manage it properly; it will kill the growth. Justify the statement.
9. X Ltd. has a capital budget of Rs. 1.5 crore for the year. From the following information relating to six independent proposals, select the projects if
- The projects are divisible and
 - The projects are indivisible.



Proposal	Investments (Rs.)	NPV (Rs.)
A	70,00,000	30,00,000
B	25,00,000	16,00,000
C	50,00,000	20,00,000
D	20,00,000	10,00,000
E	55,00,000	45,00,000
F	75,00,000	-25,00,000

10. Logo Company limited has an investment proposal that requires an investment outlay of Rs. 2,50,000.

The following information is available.

Year 1 :

Possible Event	Cash Flows (Rs.)	Probability
P	1,00,000	0.2
Q	1,25,000	0.4
R	1,80,000	0.4

Year 2 :

Event	Rs. 1,00,000		Rs. 1,25,000		Rs. 1,80,000	
	CFAT(Rs.)	Probabilities	CFAT(Rs.)	Probabilities	CFAT(Rs.)	Probabilities
P	45,000	0.2	1,40,000	0.2	1,90,000	0.3
Q	1,20,000	0.3	1,80,000	0.6	2,10,000	0.3
R	1,80,000	0.5	1,90,000	0.2	2,60,000	0.4

You are required to advise the company regarding the financial feasibility of the project using decision tree approach. Company's cost of capital is 10%.

11. Sanjay Company limited, is being acquired by Deepak company on a share exchange basis. Their selected data are as follows:

Particulars	Deepak	Sanjay
Profit after tax (Rs. In Lakhs)	78	29
Number of shares (Lakh)	14	11.8
Earnings per share	7.8	3.5
Price - Earnings Ratio	17.5	10.5

Determine:

- Pre-merger Market value per share.
- The maximum exchange ratio, Deepak Company should offer without dilution of
 - EPS,
 - Market value per share.

[P.T.O.]

**SECTION - D**

Answer the following question.

(1×12=12)

12. Star Ltd. needs Rs. 15 lakh for expansion. The expansion is expected to yield an annual EBIT of Rs. 2,40,000. In choosing a financial plan, Star Ltd. has an objective of maximizing earnings per share. It is considering the possibility of issuing equity shares and raising debt of Rs. 1,50,000 or Rs. 6,00,000 or Rs. 9,00,000. The current market price per share is Rs. 37.5 and it is expected to drop by 30 if the funds are borrowed in excess of Rs. 7,50,000. Funds can be borrowed at the rates indicated below,

- a) Upto Rs. 1,50,000 at 9%
- b) Over 1,50,000 upto Rs. 7,50,000 at 14% and
- c) Over Rs. 7,50,000 at 20%.

Determine the EPS for the three financing alternatives and advise the company to opt the best alternative among all for its expansion.