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Reg. No. 

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**I Semester M.Com. (Regular) Degree Examination, March/April - 2025****COMMERCE****Advanced Financial Management and Practices****(CBCS Scheme)****Paper : 1.5****Time : 3 Hours****Maximum Marks : 70****SECTION - A****Answer any Seven questions out of Ten. Each question carries Two marks.****(7×2=14)**

1. a) Define networking capital.
- b) Define optimal capital structure.
- c) What do you mean by capital rationing?
- d) What do you mean by the "cut-off rate"?
- e) What is interim dividend?
- f) What are different theories of capital structure?
- g) What is the difference between a merger and an acquisition?
- h) What is the commercial meaning of 'synergy'?
- i) Why is IRR considered a discounting technique?
- j) What is risk analysis in capital budgeting?

**SECTION - B****Answer any Four questions out of Six. Each question carries Five marks. (4×5=20)**

2. Explain the EBIT-EPS Approach and its application in financial decision-making.
3. Discuss the synergies and challenges in strategic alliances and joint ventures.
4. No project is acceptable unless the yield is 10% Cash inflows of a certain project along with cash outflows are given below.

Years	Outflows Rs.	Inflows Rs.
0	1,50,000	-
1	30,000	20,000
2		30,000
3		60,000
4		80,000
5		30,000

The salvage value at the end of the 5<sup>th</sup> year is Rs.40,000. Calculate net present value**[P.T.O.]**



5. Prepare an estimate of working capital requirements of Arun and Co. (a firm) from the following information.

Annual Sales (Projected)	1,00,000 units
Selling price	Rs. 8 per unit
% age of net profit on sales	25%
Average credit period allowed to customer	8 weeks
Average credit period allowed by suppliers	4 weeks
Average stock holding in terms of sale requirement	12 weeks

Consider 52 week period and allow 10% for contingencies.

6. A company is considering new equipment. The net cash flows of the equipment have been estimated as given below. The equipment's life is estimated to be two years.

	Year 1	Probability	Year 2	Probability
NCF	10000	0.4	8000	0.5
			12000	0.5
NCF	12000	0.6	16000	0.4
			20000	0.6

The cost of equipment is Rs.20,000, and the company's cost of capital is 12%. Use the decision tree approach to recommend whether the equipment should be bought or not.

7. Raja company earns a rate of 12% on its total investment of Rs.6,00,000 in assets. It has 6,00,000 outstanding common shares at Rs.10 per share. Discount rate of the firm is 10% and it has a policy of retaining 40% of the earnings. Determine the price of its share using Gordon's Model. What shall happen to the price of the share if the company has payout of 60% (or) 20%?

### SECTION - C

Answer any Two questions out of Four. Each question Carries Twelve Marks.

(2×12=24)

8. Explain the challenges and solutions related to capital budgeting under inflationary conditions.
9. The following are the costs and values for the firms A and B according to the traditional approach.

	Firm A	Firm B
Total value of firm, V(in Rs.)	50,000	60,000
Market value of debt, D(in Rs.)	0	30,000
Market value of equity, E (in Rs.)	50,000	30,000
Expected net operating income(in Rs.)	5,000	5,000
Cost of debt (in Rs.)	0	1,800
Net Income (in Rs.)	5,000	3,200
Cost of equity, $K_e=NI/V$	10.00%	10.70%



- i) Compute the equilibrium value for Firm A and B in accordance with M-M approach, assume that taxes do not exist.
- ii) Compute value of equity and cost of equity for both the firms.
10. Beta Ltd. is considering the purchase of a new machine. Two alternative machines (A and B) are suggested each costing Rs.4,00,000. Earnings after taxation are expected to be as follows:

Year	PV of Rs.1@10%	Cash Flow	
		MachineA(Rs.)	Machine B(Rs.)
1	0.91	40,000	1,20,000
2	0.83	1,20,000	1,60,000
3	0.75	1,60,000	2,00,000
4	0.68	2,40,000	1,20,000
5	0.62	1,60,000	80,000

The company's target return on capital is 10%. You are required to compare the profitability of the machines and state which alternative you consider financially preferable. Adopt NPV method and profitability index method.

11. A company is considering an investment in a project that requires an initial net investment of Rs.3,000 with an expected cash flow (CFAT) generated over three years as follows

Year - 1		Year - 2		Year - 3	
CFAT(Rs.)	Probability	CFAT(Rs.)	Probability	CFAT(Rs.)	Probability
800	0.1	800	0.1	800	0.2
1,000	0.2	1,000	0.3	1,000	0.5
1,500	0.4	1,500	0.4	1,500	0.2
2,000	0.3	2,000	0.2	2,000	0.1

- i) What is the expected NPV of this project? (assume that the probability distributions are independent and the risk-free rate of interest in the market is 0.05).
- ii) Calculate the standard deviation about the expected value.

[P.T.O.]

**SECTION - D****Answer the following question.****(1×12=12)**

12. Q Ltd. wants to acquire R Ltd. and has offered a swap ratio of 1:2(0.5 shares for every one share of R Ltd.) Following information is provided:

	<b>Q Ltd.</b>	<b>R Ltd.</b>
Profit after tax	Rs.18,00,000	Rs.3,60,000
Equity shares outstanding (Nos.)	6,00,000	1,80,000
EPS	Rs.3	Rs.2
PE Ratio	10 times	7 times
Market price per share	Rs.30	Rs.14

**Required:**

- i) The number of equity shares to be issued by Q Ltd. for acquisition of R Ltd.
  - ii) What is the EPS of Q Ltd. after the acquisition?
  - iii) Determine the equivalent earnings per share of R Ltd.
  - iv) What is the expected market price per share of Q Ltd. after the acquisition, assuming its PE multiple remains unchanged?
  - v) Determine the market value of the merged firm.
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