

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.

 $(7 \times 2 = 14)$

- 1. Define networking capital. a)
 - Define optimal capital structure. b)
 - What do you mean by capital rationing? c)
 - What do you mean by the "cut-off rate"? d)
 - What is interim dividend? e)
 - What are different theories of capital structure? f
 - What is the difference between a merger and an acquisition? g)
 - h) What is the commercial meaning of 'synergy'?
 - Why is IRR considered a discounting technique? i)
 - i) 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 5th year is Rs.40,000. Calculate net present value

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Reg. No.

4 weeks

12 weeks

		s of Arun and Co. (a firm) from the
5.	Prepare an estimate of working capital requirement	
	following information.	1,00,000 units
	Annual Sales (Projected)	Rs. 8 per unit
	Selling price	25%
	% age of net profit on sales	8 weeks

Average credit period allowed to customer Average credit period allowed by suppliers Average stock holding in terms of sale requirement

Consider 52 week period and allow 10% for contingencies.

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

estimate	d as given bel Year 1	ow. The equipment's me is Probability	Year 2 8000	Probability 0.5
NCF	10000	0.4	12000	0.5 0.4
NCF	12000	0.6	20000	0.6 capital is 12%. U

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

Raja company earns a rate of 12% on its total investment of Rs.6,00,000 in assets. It has 7. 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.

 $(2 \times 12 = 24)$

- Explain the challenges and solutions related to capital budgeting under inflationary 8. conditions.
- The following are the costs and values for the firms A and B according to the traditional 9. 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 F	Rs.) 5,000	5,000
Cost of debt (in Rs.)	0	1,800
Net Income (in Rs.)	5,000	3,200
Cost of equity, Ke=NI/V	10.00%	10.70%

- 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:

		Cash Flow		
Year	PV of Rs.1@10%	MachineA(Rs.)	Machine B(Rs.)	
1	0.91	40,000	1,20,000	
2	0.83	1,20,000	1,60,000	
2	0.85	1.60.000	2,00,000	
3	0.75	2,40,000	1.20,000	
4	0.68	2,40,000	80,000	
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

Voor - 1		Year - 2		Year - 3	
	Drobability	CFAT(Rs.)	Probability	CFAT(Rs.)	Probability
CFAI(RS.)	0.1	800	0.1	800	0.2
800	0.1	1.000	0.3	1,000	0.5
1,000	0.2	1.500	0.4	1,500	0.2
1,500	0.4	2,000	0.2	2,000	0.1
2,000	0.5	,			

- 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.

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SECTION - D

Answer the following question.

 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:

	Q Ltd.	R Ltd.
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.

(1×12=12)