# ST. JOSEPH'S EVENING COLLEGE (AUTONOMOUS) 

II SEMESTER M.COM EXAMINATIONS - APRIL 2019

## ADVANCED FINANCIAL MANAGEMENT

## Duration: 2.5 Hours

Max. Marks: 70

## SECTION - A

I) Answer any EIGHT of the following questions.

1. What is financing decision?
2. What is Point of Indifference?
3. Give the meaning of DCF.
4. Differentiate Risk and Uncertainty.
5. State the need for capital budgeting.
6. Give the meaning of utility theory.
7. What is corporate restructuring?
8. What is leveraged buyout and state its purpose?
9. What is hedging and mention any two hedging instruments.
10. How is call option different from put option?

## SECTION - B

II) Answer any THREE of the following questions.
11. Explain the Traditional Approach with its assumptions.
12. "Companies follow acquisition strategies". State your reasons.
13. What are the features of Future Contracts? Distinguish between Future Contract and Forward Contract.
14. Explain the significance of Risk Analysis in capital budgeting.
15. Calculate the degree of operating leverage and financial leverage for the following firms:

| Particulars | A | B | C |
| :--- | ---: | ---: | ---: |
| Output (units) | 20000 | 87500 | 300000 |
| Fixed costs (Rs.) | 150000 | 200000 | 87500 |
| Variable cost (per unit) | 1.5 | 5.75 | 0.75 |
| Interest expenses (Rs.) | 42500 | 50000 | --- |
| Selling price (per unit) | 2.50 | 14.50 | 1.25 |

## SECTION - C

## III) Answer any ONE of the following questions.

16. Analyze the types of financial decisions with its justification.
17. Triumph Ltd., can make either of the two investments at the beginning of 2012, assuming the rate of return of $10 \%$ p.a. Evaluate the investment proposal by: a) Payback Period b) Average Rate of Return method c) NPV method Details are as follows:
Cost of the investment - Project $X=$ Rs. 250000 ; Project $Y=$ Rs 300000
Life of - Project $X=5$ years; Project $Y=6$ years.
The net income (after depreciation and tax) for 6 years are as follows:

|  | X | Y |
| :--- | ---: | ---: |
| Year | Rs. | Rs. |
| 2001 | 6000 | 38000 |
| 2002 | 10000 | 45000 |
| 2003 | 25000 | 50000 |
| 2004 | 30000 | 45000 |
| 2005 | 35000 | 55000 |
| 2006 | --- | 60000 |

It is estimated that each of the alternative projects will require an additional working capital of Rs. 20000 which will be received back in full after the expiry of each of the project life. Depreciation is provided under straight line method and there is no scrap value. Present value at $10 \%$ is given below:

| Year | I | II | III | IV | V | VI |
| :--- | ---: | ---: | ---: | ---: | ---: | ---: |
| PV factor | 0.909 | 0.826 | 0.751 | 0.683 | 0.621 | 0.564 |

18. From the following information, ascertain which project is more risky on the basis of standard deviation and also calculate coefficient of variation.

| Cash flows | Project A <br> Probabilities | Cash flows | Project B <br> Probabilities |
| ---: | ---: | ---: | ---: |
| 2000 | 0.1 | 2000 | 0.1 |
| 4000 | 0.3 | 4000 | 0.2 |
| 6000 | 0.2 | 6000 | 0.4 |
| 8000 | 0.2 | 8000 | 0.2 |
| 10000 | 0.2 | 10000 | 0.1 |

## $\underline{S E C T I O N ~-~ D ~}$

## IV) Analyze the case and answer the questions.

19. A company's capital structure consists of the following:

| Particulars | Rs. |
| :--- | ---: |
| Equity shares of Rs. 100 each | 1000000 |
| Retained Earnings | 500000 |
| 9\% Preference shares | 600000 |
| 7\% Debentures | 400000 |
|  | 2500000 |

The company earns $12 \%$ on its capital. The income tax rate is $50 \%$. The company requires a sum of Rs. 1250000 to finance its expansion programme for which the following alternatives are available:
a) Issue of 10000 equity shares of Rs. 100 each at a premium of Rs. 25 per share
b) Issue of $10 \%$ preference shares
c) Issue of $8 \%$ debentures

It is estimated that the $\mathrm{P} / \mathrm{E}$ ratio for equity, preference and debenture financing would be $21.4,17$ and 15.7 respectively.
Which of the three financing alternatives would you recommend and why?

