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Reg. No. | | | | | | | | |

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 5th year is Rs.40,000. Calculate net present value

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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, Ke=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:

		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
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.

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:

	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.