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AFM

JP - 849

II Semester M.Com. Degree Examination, June 2008
(2007-08) (New Scheme)
COMMERCE

2.2: Advanced Financial Management

Time : 3 Hours

Max. Marks : 80

- Instructions : 1) Ten questions to be answered from Section - A.
2) Three questions to be answered from Section - B.
3) Three questions to be answered from Section - C.

SECTION - A

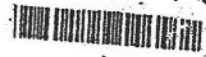
1. Answer any ten of the following in about 3-4 lines each. Each sub-question carries two marks. (10x2=20)
- Define finance function.
 - What is optimum capital structure?
 - What is modified internal rate of return (MIRR)?
 - What do you mean by capital rationing?
 - What are the non-conventional investments?
 - Distinguish between risk and uncertainty.
 - What is sensitivity analysis?
 - What is a conglomerate merger?
 - Distinguish between a hostile takeover and a friendly takeover.
 - What is the significance of P/E ratio?
 - What are financial derivatives?
 - What is hedging?

SECTION - B

Answer any three of the following. Each question carries 5 marks. (3x5=15)

2. State the assumptions of Modigliani and Miller's hypothesis on capital structure. C.M.M.H.

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3. If an equipment costs Rs. 5,00,000 and lasts 8 years, what should be the minimum annual cash inflow to consider if worthwhile to purchase the equipment? Assume that the cost of capital is 10 per cent. (Refer to discount factors given in problem no 10, if necessary).
4. What is simulation approach to investment decision-making? What are its pros and cons?
5. What synergies do exist in
 - i). horizontal mergers and
 - ii) vertical mergers?
6. What are the important economic functions performed by the derivative markets?

SECTION - C

Answer any three of the following in about three pages each. Each question carries 15 marks:

(3×15=45)

7. Briefly explain and illustrate the concept of 'time value of money'. State its relevance in different areas of financial decision-making.
8. Contrast the IRR and the NPV methods. Under what circumstances may they lead to
 - i) comparable recommendations, and
 - ii) give conflicting recommendations?In circumstances in which they give contradictory results, which criteria should be used to select the projects and why? Justify your answer.

9. A company is considering two mutually exclusive projects X and Y. Project X costs Rs. 30,000 and Project Y Rs. 36,000. You have been given below the net present value estimates and probability distribution for each project :

Project - X		Project - Y	
NPV estimate	Probability	NPV estimate	Probability
Rs. 3,000	0.1	Rs. 3,000	0.2
Rs. 6,000	0.4	Rs. 6,000	0.3
Rs. 12,000	0.4	Rs.12,000	0.3
Rs. 15,000	0.1	Rs.15,000	0.2

- Compute the expected net present value of projects X and Y.
 - Compute the risk attached to each project that is, standard deviation of each probability distribution.
 - Which project do you consider more risky and why ?
 - Compute the profitability index of each project.
10. A company is considering which of two mutually exclusive projects it should undertake. The Finances Director thinks that the project with the higher NPV should be chosen whereas the M.D thinks that the one with the higher IRR should be undertaken especially as both projects have the same initial outlay and length of life. The company anticipates a cost a capital of 10% and the net after-tax cash flows of the projects are as follows :

Year	Cash flows :				
(in '00)	1	2	3	4	5
Project - X (200)	35	80	90	75	-20
Project - Y (200)	218	10	10	4	3

Required :

- Calculate the NPV and IRR of each project.



- b) State, with reasons, which project you would recommend.
- c) Explain the inconsistency in the ranking of the two projects.

The discount factors are as follows :

Year	0	1	2	3	4	5
Discount factor : (10%)	1	0.91	0.83	0.75	0.68	0.62
(20%)	1	0.83	0.69	0.58	0.48	0.41

- 11. Discuss the various characteristic features of futures contracts. What is the role of clearing houses in trading of such contracts ?



II Semester M.Com. Degree Examination, June 2009
(2007-08 Scheme) (N.S.)

COMMERCE

Paper 2.2 : Advanced Financial Management

Time : 3 Hours

Max. Marks : 80

SECTION - A

1. Answer any ten of the following sub-questions in about 3-4 lines each. Each sub-question carries two marks. (10×2=20)
- a) What are the important elements of Capital Structure ?
 - b) Distinguish between Net Income and Net Operating Income.
 - c) What do you mean by Opportunity Cost of Capital ?
 - d) Define Capital Rationing.
 - e) What is Leveraged Buyout ?
 - f) Distinguish between Scenario Analysis and Simulation Analysis.
 - g) Define Corporate Restructuring.
 - h) What are Hedging Instruments ?
 - i) Define Futures.
 - j) What is meant by Swaps ?
 - k) What is meant by Post-payback Profitability ?
 - l) How do you compute the EPS ?



SECTION - B

Answer any three of the following questions and each question carries five marks :

(3×5=15)

2. How is the Finance Function typically organized in a large organization ?

3. Is the MM Thesis realistic with respect to Capital Structure ? Why ? Discuss.

4. Write an explanatory note on Sensitivity Analysis.

5. Explain and illustrate Option Payoffs.

6. ABC Ltd. needs Rs. 5,00,000 for construction of a new plant. The following three financial plans are feasible :

- The company may issue 50,000 equity shares of Rs. 10 per share;
- The company may issue 25,000 equity shares of Rs. 10 per share and 2,500 debentures of Rs. 100 denomination bearing 8% of interest;
- The company may issue 25,000 equity shares of Rs. 10 per share and 2,500 preference shares of Rs. 100 per share bearing 10% of dividend.

If the company's earnings before interest and taxes are Rs. 40,000; Rs. 80,000; and Rs. 1,20,000 what are the earnings per share under each of the three financing plans ? Which alternative would you recommend and why ?

SECTION - C

Answer any three of the following questions and each question carries 15 marks :

(3×15=45)

7. What is a Merger ? Enumerate the different types of Mergers. What are the potential economic advantages from Mergers ?

8. What are Derivative Instruments ? What are the economic functions performed by the Derivatives Markets ?

9. What makes risk important in the selection of projects ? Explain briefly the various methods of evaluating risky projects. Can you think of a capital budgeting project that would have perfectly certain returns ?



10. An existing company has a machine which has been in operation for two years, its estimated remaining useful life is four years with no salvage value in the end. Its current market value is Rs. 25,000. The management is considering a proposal to purchase an improved model of the machine which gives increased output. The relevant particulars are as follows.

Particulars	Existing Machine	New Machine
Purchase Price (Rs.)	60,000	1,07,500
Estimated Life (years)	6	4
Salvage Value (Rs.)	0	0
Annual Operating Hours	1,000	1,000
Selling Price per unit (Rs.)	3	3
Material per unit (Rs.)	0.40	0.40
Output per Hour (units)	15	30
Labour Cost per Hour (Rs.)	11	16
Consumable Stores per year (Rs.)	2,000	1,000
Repairs and Maintenance per year (Rs.)	3,000	2,000
Working Capital (Rs.)	10,000	20,000
Income Tax Rate (%)	30	30

Should the existing machine be replaced? Assume that

- a) Required rate of return is 10%, and
- b) The company uses Written Down Value Method of depreciation at 25% and it has several machines in the 25% block.



11. Company X wishes to takeover Company Y. The financial details of the two companies are as under.

Particulars	Company X	Company Y
Equity Shares (Rs. 10 per share) (Rs.)	1,00,000	50,000
Share Premium Account (Rs.)		2,000
Profit and Loss Account (Rs.)	38,000	4,000
Preference Shares (Rs.)	20,000	
10% Debentures (Rs.)	15,000	5,000
Fixed Assets (Rs.)	1,22,000	35,000
Net Current Assets (Rs.)	51,000	26,000
Maintainable Annual Profit (after Tax) for Equity Shareholders (Rs.)	24,000	15,000
Market Price per Equity Share (Rs.)	24	27
Price-Earnings Ratio	10	9

What offer do you think Company X could make to Company Y in terms of Exchange Ratio, based on

- Net asset value
- Earnings per share, and
- Market price per share?

Which method would you prefer from Company X's point of view?

II Semester M.Com. Examination, June/July 2010
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SECTION - A

1. Answer any ten of the following in about 3-4 lines each. Each sub-question carries two marks. (10×2=20)
- a) Explain arbitrage process.
 - b) What is trading on equity?
 - c) State the elements of capital structure.
 - d) Difference between NPV and IRR methods.
 - e) Explain varying opportunity cost of capital.
 - f) What is capital rationing?
 - g) Explain the concept risk and uncertainty.
 - h) What is simulation analysis?
 - i) Discuss Leveraged buyouts.
 - j) Explain the significance of PE ratio in Mergers.
 - k) Explain Hedging instruments.
 - l) What is risk hedging?

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SECTION - B

Answer any three of the following. Each question carries 5 marks. (3×5=15)

2. Explain the traditional approach specifying optimum capital structure.
3. Discuss the investment decision under inflation.
4. State the significance of risk analysis in capital budgeting.
5. Discuss briefly about corporate restructuring.
6. Explain financial derivatives.

SECTION - C

Answer any three of the following in about three pages each. Each question carries 15 marks. (3×15=45)

7. State the difference between mergers and acquisitions. Explain DCF approach for financing a merger.
 8. Discuss the uses of derivatives in the context of globalisation.
 9. A firm has a capital structure exclusively comprising of ordinary shares amounting to Rs. 10 lakhs. The firm now wishes to raise additional capital of Rs. 10 lakhs for expansion. The firm has four alternative financial plans :
 - A) It can raise the entire amount in the form of equity capital.
 - B) It can raise 50% as equity capital and 50% as 5% debentures.
 - C) It can raise the entire amount as 6% debentures.
 - D) It can raise 50% as equity capital and 50% as 5% preference shares.
- Further, the existing EBIT is Rs. 1,20,000, tax rate is 35%, outstanding ordinary shares 10,000 and the market price per share is Rs.100 under all the four alternatives. Which financing plan should the firm select ?

10. A company is faced with the problem of choosing between two mutually exclusive projects. Project A requires Rs. 1,00,000 and cash running expenses of Rs. 35,000 per year.

On the other hand project B requires a cash outlay of Rs. 1,50,000 and cash running expenses of Rs. 20,000 per year. Both the projects have an eight year life period. Project A has a salvage value of Rs. 4,000 and project B has Rs. 14,000. The Co's required rate of return is 10%. The tax rate is 50% and depreciation is on straight line basis on a differential basis, which project should be accepted?

11. The probability distributions of two projects and NPV are given below:

Project A		Project B	
NPV(Rs.)	Probability	NPV(Rs.)	Probability
5,000	0.2	0	0.1
7,500	0.7	7,500	0.7
10,000	0.1	15,000	0.2

You are required to calculate the expected value, the standard deviation and the co-efficient of variation for each project. Which of these mutually exclusive projects do you prefer and why?