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Nateshe R

PG – 639

II Semester M.Com. Degree Examination, July/August 2011
(2007-08 New Scheme) (N.S.)
COMMERCE
Paper – 2.2 : Advanced Financial Management

Time : 3 Hours

Max. Marks : 80

SECTION – A

1. Answer any 10 of the following sub questions in about 3-4 lines each. Each sub-question carries 2 marks. (10×2=20)

   a) What is Optimal Capital Structure ?

   b) What is meant by Risk-Return Tradeoff ?

   c) What do you mean by Profitability Index ?

   d) What do you mean by Annual Equivalent Value Method ?

   e) What do you mean by Sequential Analysis ?

   f) What is sensitivity analysis ?

   g) Explain Financial benefits of Merger and Acquisitions.

   h) What do you mean by Share exchange ratio ?

   i) What is Call premium ?

   j) Define Derivatives.

   k) What is WACC ?

   l) What do you mean by real rate and nominal rate ?

P.T.O.

SECTION – B

Answer **any three** of the following questions and **each** question carries **five** marks.
(3×5=15)

2. Define leverage Buyouts and management Buyouts.

3. Certainty equivalent approach is theoretically superior to risk adjusted discount rate. Do you agree, comment.

4. What is meant by Wealth maximization ? How is it superior to profit maximization ?

5. What is risk free security ? What is risk premium ?

6. Despite its weaknesses payback period is popular in practice. What are the reasons for its popularity ?

SECTION – C

Answer **any three** of the following questions and **each** question carries **15** marks.
(3×15=45)

7. Explain various risks encountered by investors making investments in international markets. Explain various functional and financial benefits offered by derivatives in managing such risks and also highlight various strategies designed by investors using derivatives to hedge the potential risks associated with his investments.

8. Illustrate arbitrage process as explained by MM. What is the criticism of MM hypothesis without taxes ? Is there similarity between MM hypothesis and net operating income approach.

9. KC Company is considering to mutually exclusive projects. The initial cost of both projects is Rs. 5,000 and each has an expected life of 5 years. Under three possible states of economy their annual cash flows and associated probability are as follows :

		NCF (Rs.)	
Economic State	**Probability**	**Project A**	**Project B**
Good	0.3	6000	5000
Normal	0.4	4000	4000
Bad	0.3	2000	3000

If the discount rate is 7%, which project should the company accept ?

10. Following information is obtained from hypothetical company which has three different situations X, Y and Z and financial plans I, II and III. You are required to calculate operating leverages, financial leverages and combined leverages.

Total capacity of the project = 10,000 Units,

Explored capacity of sales = 7500 Units

S.P/Unit = Rs. 20/-   calculating EBIT Profit = Sale price   S.P. 150,000 – 37,000 – 1000

V.C/Unit = Rs. 150/-

Fixed Cost :

X = Rs. 10,000

Y = Rs. 20,000

Z = Rs. 25,000

Financial Plans :

1) Rs. 50,000/-Equity and Rs. 40,000/-Debt at 10% interest

2) Rs. 60,000/-Equity and Rs. 30,000/-Debt at 10% interest

3) Rs. 30,000/-Equity and Rs. 60,000/-Debt at 10% interest

11. What is a merger ? Enumerate different types of mergers ? What are the potential economic advantages from mergers ? What synergies do exist in

a) Horizontal mergers

b) Vertical mergers

c) Conglomerate mergers.

PG – 811

II Semester M.Com. Degree Examination, July 2012
(2007-08 Scheme) (NS)
COMMERCE
Paper – 2.2 : Advanced Financial Management

Time : 3 Hours

Max. Marks : 80

SECTION – A

1. Answer **any ten** of the following sub-question in about **three** to **four** lines **each**. **Each** sub-question carries **two** marks. **(10×2=20)**

 a) What is leverage ?

 b) What is Risk ?

 c) What is opportunity cost ?

 d) What is simulation ?

 e) What is synergy ?

 f) What is cost of capital ?

 g) What is break even analysis ?

 h) What is open interest ?

 i) What is a put option ?

 j) What is risk free debt ?

 k) What is dead weight cost ?

 l) What is inflation ?

P.T.O.

SECTION – B

Answer **any three** of the following question and **each** question carries **five** marks.
(3×5=15)

2. Explain the role of private equity is market for corporate control.

3. What are the principles of cash flow estimation in capital budgeting ?

4. Given the estimate of return and probabilities, calculate expected return and risk.

P (X)	r(%)
.10	7
.20	12
.40	15
.20	18
.10	20

5. Calculate EMI for a loan of Rs. 5 lakh to be repaid in 60 monthly instalment so as to earn a return of 15% for the lender.

6. Explain how to compute cost of equity.

SECTION – C

Answer **any three** of the following question and **each** question carries **fifteen** marks.
(3×15=45)

7. Discuss the revised M and M proposition that allowed for interest deductibility and corporate taxes. What are the offsetting factors under the revised proposition ?

8. Dreamworks company presently pays a dividend of Re. 1. This dividend is expected to grow at a 20 percent rate for 5 years and at 10 percent per annum thereafter. The present market price per share is Rs. 20. Using a dividend discount model approach to estimating capital costs, what is the company's expected or required return on equity ?

   (Hint : use 18% and 19% discount rates)

9. Two mutually exclusive projects have projected cash flows as follows :

		Period			
Project	0	1	2	3	4
A –	Rs. 10,000	Rs. 5,000	Rs. 5,000	Rs. 5,000	Rs. 5,000
B –	10,000	0	0	0	30,000

a) Determine the internal rate of return for each project.

b) Assuming a required rate of return of 10 percent, determine the net present value for each project.

c) Which project would you select ? What assumptions are inherent in your decision ?

10. Distinguish between options, futures, forwards and swaps. Briefly explain their application in managing risk.

11. What is risk analysis in capital budgeting ? Discuss any two methods.
