



11205

I Semester M.Com. Examination, April/May 2024
(CBCS Scheme)
COMMERCE
Paper – 1.5 : Advanced Financial Management

Time : 3 Hours

Max. Marks : 70

Instruction : All the questions should be answered as per given **instructions**.

SECTION – A

1. Answer **any seven** sub-questions. **Each** sub-question carries **2** marks. (7×2=14)
- Define Finance function.
 - What is MIRR ?
 - What do you mean by Modigliani and Miller theory of capital structure ?
 - What is Hostile Takeover ?
 - Give the meaning of value of the Firm.
 - What is Risk and Uncertainty ?
 - What do you mean by Spin-off ?
 - What is Capital Rationing ?
 - Give the meaning of Scenario Analysis.
 - What is IRR ?



SECTION – B

Answer **any four** questions. **Each** question carries **5** marks. (4×5=20)

2. Sunshine Ltd. expects a net operating income of ₹ 2,50,000. It has ₹ 8,00,000, 8 percent Debentures. The overall capitalization rate is 12 percent. Calculate the value of the firm and the equity capitalization rate according to the net operating income approach. If the debentures debt is increased to ₹ 10,00,000. What will be the effect on value of the firm and the equity capitalization rate ?
3. Explain differences between Operating Leverage and Financial Leverage.

P.T.O.



4. The investment data of LEO Company Ltd. launching a new project with 12% cost of capital is as follows :

Particulars	Amt. ₹
Investment	14,00,000
Years	Cash flows
1	10,00,000
2	8,00,000
3	4,00,000
4	2,00,000
5	2,00,000

Assuming an inflation rate of 6%, determine NPV of the project by using both the nominal rate of discount and real rate of discount.

5. Give the meaning of Mergers. Explain the types of mergers with an example based on actuals.
6. A four-month future contract trades on the BSE. The cost of financing is 12% and dividend yield on sensex is 4% annualized. The spot value of the sensex is ₹ 2,000. What is the fair value of the future contract ?
7. State the significance of Risk Analysis in Capital Budgeting.

SECTION – C

Answer **any three** questions. **Each** question carries **12** marks.

(3×12=36)

8. India Inc. is considering an investment proposal of ₹ 4,00,000. The expected returns during the life of the investment are :

Year 1

Event	Cash Inflow (Rs.)	Probability
A	1,60,000	0.2
B	2,40,000	0.5
C	2,00,000	0.3

Year 2

Cash Inflow Year 1	Rs. 1,60,000		Rs. 2,40,000		Rs. 2,00,000	
	CIF	Prob.	CIF	Prob.	CIF	Prob.
A	60,000	0.30	80,000	0.1	10,000	0.3
B	80,000	0.40	1,20,000	0.8	16,000	0.5
C	50,000	0.30	1,60,000	0.1	24,000	0.2

Using 10% Cost of capital, advice the acceptability of the proposal.





9. Explain the following derivative instruments in brief :

- a) Forward Contract
- b) Futures Contract
- c) Options
- d) Swaps.

10. PQ Ltd. has limited investment funds of ₹ 6,00,000 with a 14% cost of funds. The finance director is evaluating the desirability of several investment proposals.

Proposals	Initial Investment (Rs.)	Life (years)	Year-end Cashflows (Rs.)
A	4,50,000	2	2,81,400
B	3,00,000	5	99,000
C	3,00,000	3	1,50,000
D	1,50,000	9	30,000
E	4,50,000	10	99,000

- a) Rank the proposals according to the Profitability Index and NPV method.
- b) Determine the optimal investment package.
- c) If the company has ₹ 7,50,000 as the capital budget, which proposal would you suggest ?

11. The following information is provided related to the acquiring firm Mark Ltd. and the target firm Mask Ltd.

Particulars	Mark Ltd.	Mask Ltd.
Profit After Tax	2,000 Lakhs	400 Lakhs
No. of shares	200 Lakhs	100 Lakhs
Outstanding P/E Ratio (times)	10	05

Required :

- i) What is the Swap Ratio based on Current Market Price ?
- ii) What is the EPS of Mark Ltd. after acquisition ?
- iii) What is the expected market price per share of Mark Ltd. after acquisition assuming that P/E Ratio remains unchanged ?
- iv) Determine the market value of the merged firm and
- v) Calculate gain/loss of the two independent companies after acquisition.





12. A company is considering methods of financing its establishment. Initially ₹ 2,00,000 will be needed. The company is considering two proposals for the purpose.

- i) Issue 15% Debentures of ₹ 1,00,000 and issue 1000 equity shares of ₹ 100 each.
- ii) Issue 2000 equity shares of ₹ 100 each.

The corporate tax rate is 35%.

Suggest the best plan by assuming the level of EBIT is

- a) ₹ 30,000
- b) ₹ 40,000
- c) ₹ 80,000.

