

Register Number:

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 **ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27**

**BCOM - IV SEMESTER**

**SEMESTER EXAMINATION: APRIL 2022**

(Examination conducted in July – August 2022)

**BC IFA 4419 – Financial Management II**

**Time- 2 1/2 hrs Max Marks-70**

**This paper contains \_\_3\_\_ printed pages and four parts**

**SECTION A**

**Answer any FIVE of the following questions. Each question carries two marks each ( 5x 2 = 10)**

1. ---------------- is an offer to existing shareholders to subscribe for new shares, at a discount to the current market value, in proportion to their existing holdings.
2. Placement
3. Rights Issue
4. Public Offering
5. Warrants
6. Which of the following statements concerning capital structure theory is correct?
7. The traditional view of capital structure suggests that the company can minimise their weighted average cost of capital.
8. Modigliani and Miller said that, incorporating debt, the weighted average cost of capital would remain constant.
9. Pecking order theory indicates that preference shares are preferred to convertible debt as a source of finance
10. Modigliani and Miller said that, incorporating tax, as gearing levels increase so the value of the company will decrease
11. Which of the operating strategies are basically trying to manipulate or gamble about the currency or the expectations about the future currency movements?
12. Risk Sharing
13. Leading
14. Netting
15. Matching
16. Choose the incorrect statement based on Cash flow method

i) Discounted cash flow method can be used to value part of the company.

ii) Discount rate is always changing and does not assume its constant during the period.

**BCIFA 4419-A-22**

iii) While calculating the value of the company we consider PAT rather than CFAT.

iv) This valuation is based on the company's ability to generate cash flows in the future."

1. (i) and (ii)
2. (ii) and (iii)
3. (i) and (iii)
4. (ii) and (iv)
5. It is 30th June, Greg plc will need a $10 million 6-month fixed rate loan from 1 October. Greg wants to hedge using a forward rate agreement. The relevant FRA rate is 6% on 30 June. What is the interest payable/receivable via the FRA contract if in 6 months' time the market rate is 9%?
6. $450,000 receivable
7. $150,000 payable
8. $150,000 receivable
9. $450,000 payable
10. What is the most preferred strategy to consider for a company if they face economic risk?
11. Diversify into Internationally.
12. Diversify into Domestically
13. No diversification
14. Hedging

**SECTION B**

**Answer any THREE of the following questions. Each question carries five marks each ( 3x5 = 15)**

1. XYZ plc has issued 10% debentures quoted at 103 $. They are redeemable after 5 years. Redemption is at a discount of 5%.The Corporate tax rate is 30%, Calculate the cost of debt to the company assuming the rate is 5% and 10%.
2. The following is the balance sheet of ESS GEE PLC , calculate the value of the company using asset based method.

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **Amount** | **Assets** | **Amount** |
| Equity Shares | 5,00,000 | Fixed Assets  | 10,00,000 |
| General Reserve | 1,00,000 | Intangible Asset | 5,00,000 |
| P&L A/C  | 1,00,000 | Preliminary Expense | 50,000 |
| Debentures | 4,00,000 | Deferred Tax Asset | 50,000 |
| Term Loan | 6,00,000 | Inventory | 2,00,000 |
| Current Liabilities | 1,00,000 | Other Current Assets | 1,00,000 |
| Provisions | 1,00,000 |  |  |
|  | **19,00,000** |  | **19,00,000** |

out of the fixed assets of 10,00,000 furniture is of 4,00,000 which will need repair expenses of 50,000, computers is 6,00,000 which needs updation cost of 60,000.Out of the current assets, inventory have a market value of 2,10,000 and a cost of 2,00,000.

1. Briefly explain purchasing power parity theorem. Predict the future spot rate in a years’ time when the dollar and sterling are currently trading at $1.72 = 1. The inflation in the US is expected to grow at 3% and 4% pa in the UK.
2. Elaborate on the sources of finance as per conventional finance.

**SECTION C**

**Answer any TWO of the following questions. Each question carries fifteen marks each ( 2x15 = 30)**

1. ABC company wants to raise 2 million $ for a project and it was financed as follows-
2. They issued 6000 debt amounting to 600,000$ and were issued at a premium of 5%. Flotation cost is 8$. Int rate is 12%. Tax rate is 30%.
3. The company also issued 5000 equity shares amounting to 900,000$. The average market return paid on the risky investments is 12% compared with 8% on treasury bills. The systematic risk of the company is 1.2
4. The company has taken a loan of 500,000 $ from a bank @ 13%.

**Calculate Weighted average cost of capital.**

1. XY is a british trader who has done the following transactions -
	1. Import from USA payable after 4 months time ,invoiced at 45,000 $
	2. Export to France also invoiced at 12000 $ receivable in 4 months time.

Spot rate is $/pound = 1.4137/1.4298 and 4 month premium is 0.0246/0.0212. The 4 month forward rate 1.3891 and 1.4086 $. The interest rates are as follows:-

USA interest rate = 2% / 3%

UK interest rates = 3.5% / 4.5%

XY is considering using either forward contract or money market for the purpose of hedging. You are required to calculate amount after 4 months as per Forward contract and as per money market hedge. Suggest which is a better technique for hedging the above two transactions.

1. Enumerate the functions of treasury department of a firm and write a short note on advantages of centralised and decentralised treasury function.

**SECTION D**

**Answer the following complusory question. The question carries fifteen marks ( 1x15 = 15)**

1. Chris PLC has operating profit of 6 million $ and has the following source of finance-

a) 200,000 14% preference shares of 10$ each.

b) 350,000 equity shares of 10$ each.

c) 300,000 12% debentures of 10$ each.

The corporate tax rate is 30% and the Market price share is 120 $ per share.

You are required to calculate the value of the company. Also, will the value differ if 50,000 debentures were converted to 50,000 equity shares.

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