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

Registration Number:

Date & Session: 12-12-2022 (9am)

**B.Com – V SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2022**

**(Examination conducted in December 2022)**

**BCDEF5518- Advanced Financial Management**

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

**This paper contains two printed pages and four parts**

**SECTION-A**

**Answer any FIVE of the following questions. Each question carries two marks. (5x2=10)**

1. What is optimal capital structure?
2. What is sensitivity analysis?
3. State the formula to calculate Gordon’s Growth model.
4. What is an operating cycle?
5. What is discounted cash Flow?
6. Give the meaning of inventory management.

**SECTION- B**

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

1. ABC Ltd. has a capital of Rs. 10,00,000 in equity shares of Rs. 100 each. The shares are currently quoted at par. The company proposes to declare a dividend of Rs. 10 per share at the end of the current financial year. The capitalization rate for the risk class to which the company belongs is 12%. What will be the Market price of the share at the end of the year, if
2. A dividend is not declared.
3. A dividend is declared.
4. Assuming that the company pays the dividend and has net profits of Rs. 5,00,000 and makes new investments of Rs. 10,00,000 during the period, how many new shares must be issued? Use the MM Model.
5. Briefly explain types of working capital
6. Differentiate between Net Income approach and Net Operating Income approach.
7. The textile manufacturing Company Ltd. is considering an investment in one of the two mutually exclusive proposals – Project M and Project N, which require cash outlays of Rs. 8,50,000 and Rs. 8,25,000 respectively. The certainty equivalent approach is used in incorporating risk in capital budgeting decisions. The current yield on government bond is 6% and this is to be used as the riskless rate. The expected net cash flows and their certainty equivalents are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Year | 1 | 2 | 3 |
| Project M | CFs | 4,50,000 | 5,00,000 | 5,00,000 |
| CEF | 0.8 | 0.7 | 0.5 |
| Project N | CFs | 4,50,000 | 4,50,000 | 5,00,000 |
| CEF | 0.9 | 0.8 | 0.7 |

The management of the company uses Certainty Equivalent (CE) approach to evaluate such type of projects. Which project should be accepted?

**SECTION -C**

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

1. The following is the data regarding two Companies’. X and Y belonging to the same risk class.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Company X** | **Company Y** |
| No. of ordinary shares  | 9000 | 15,000 |
| Market price per share (Rs.)  | 1.2 | 1.0 |
| 6% debentures  | 60,000 | Nil |
| Profit before Interest | 18,000 | 18,000 |

All profits after interest are distributed as dividend.

Explain how under Modigliani & Miller Approach an investor holding 10% of shares in Company X will be better off in switching his holding to Company Y.

1. What is dividend Policy? Explain Walter Model on dividend policy.
2. What is Capital Budgeting? Explain in various techniques for Risk Analysis

**SECTION -D**

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

1. Mr. Selva is considering two mutually exclusive project ‘X’ and ‘Y’. You are required to advise him about the acceptability of the projects from the following information.

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Project X** | **Project Y** |
| Cost of the investment  | Rs.1,00,000 | Rs.1,00,000 |
| Forecast cash inflows per annum for 5 years: |  |  |
| Optimistic  | 60,000 | 55,000 |
| Most likely  | 35,000 | 30,000 |
| Pessimistic  | 20,000 | 20,000 |

(The cut-off rate may be assumed to be 15%).

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