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

Registration Number:

Date & Session: 19-12-2022 (9am)

 **BCOM-IFA – V SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2022**

**(Examination conducted in December 2022)**

**BCIFA 5419: ADVANCED FINANCIAL MANAGEMENT**

**Time: 2 ½ Hours Max Marks: 70**

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

**Section A**

I. Answer any **five** of the following  **(5 X 2 = 10marks)**

1. Traders in stock markets who do not base their decisions on fundamental analysis of company performance and prospects is known as \_\_\_\_
   1. Herd behaviour
   2. Noise trader
   3. Gambling
   4. Anchoring
2. Financial impact of the financial manager does not deal with;
   1. Impact on cost of capital
   2. Stakeholder reactions
   3. Impact on financial statements
   4. Likely impact on share price
3. Which of the following theory/s are known as relevance theory of dividend.
   1. Gordon’s Model
   2. M&M Model
   3. Walter’s Model
   4. Macauley model
4. Under Compromise approach of capital structure, the decision of the firm should be based on(select whichever applicable)
   1. When the firm is far from target, decisions should be governed by static trade- off theory.
   2. When close to target, pecking order theory will dictate source of funds.
   3. When the firm is far from target, decisions should be governed by pecking order theory.
   4. When close to target, static trade -off will dictate source of funds.
5. An acquisition/merger that is used by private companies that want to become public companies but want to avoid the high costs that normally accompany stock market listings is known as
   1. Hostile take over
   2. Reverse takeovers
   3. Indirect acquisition
   4. Direct takeovers
6. Profitable companies will tend to find that their gearing level gradually reduces over time as accumulated profits help to increase the value of equity is known as
   1. Agency effect
   2. Signaling theory
   3. Gearing drift
   4. A compromise approach

**Section B**

II. Answer any **three** of the following **(3 x 5 = 15 marks)**

1. Discuss the various functions of international treasury.
2. A project requires an initial investment of $40,000 and will generate annual cash flows as follows:                                                                                                                                                   Year Cash flow $
3. 8,000
4. (4000)
5. 12000
6. 15200
7. 20000

The firm's financing rate (for negative cash flows) is 9%, and its reinvestment rate (for positive cash flows) is 6%. Calculate MIRR and interpret the results.

1. Compute the value of the firm, value of equity shares and average cost of  capital from the following information**:**

Net Operating Income                                        Rs. 2,00,000

Debt @ 5% Rs. 4,00,000

Total investment                                                  Rs. 10,00,000

Equity capitalization rate is 11%

1. LBU company makes two products, Pen and Pencil. Each product passes through two departments, manufacture and packaging. The time spent in each department is as follows:

Departmental time (hours)

Manufacture Packaging

Pens 6 4

Pencil 8 12

There are 6,800 hours available in the manufacturing department and 4,600 available in the packaging department. Production of Pens must not exceed 2,200 units. The contribution earned from one Pen is $30 and from a Pencil is $20. Formulate the linear programme needed to identify the optimum use of the scarce labour resource.

**Section C**

III. Answer any **two** of the following **(2 x 15 = 30 marks)**

1. Briefly explain any seven behavioural biases and its impact on the financial strategies or the price of the securities.
2. A company is considering investing $9m in a project to achieve an annual increase in revenues over the next five years of $4m. The project will lead to an increase in wage costs of $0.8m per year and will also require expenditure of $0.6m per year to maintain the level of existing assets to be used on the project. Additional investment in working capital equivalent to 10% of the increase in revenue will need to be in place at the start of each year.

The following forecasts are made of the rates of inflation each year for the next five years:

Revenues 10%

Wages 5%

Assets 7%

General prices 7.41%

The real cost of capital of the company is 8%.

All cash flows are in real terms. Ignore tax.

Find the free cash flows of the project and determine whether it is worthwhile**.**

1. Talam Co, a listed company, aims to manufacture innovative engineering products which are environmentally friendly and sustainable. These products have been highly marketable because of their affordability. Talam Co’s mission statement also states its desire to operate to the highest ethical standards. These commitments have meant that Talam Co has a very high reputation and a high share price compared to its competitors. Talam Co is considering a new project, the Uwa Project, to manufacture drones for use in the agricultural industry, which are at least 50% biodegradable, at competitive prices. The drones will enable farmers to increase crop yields and reduce crop damage. Manufacture of drones is a new business area for Talam Co. The project is expected to last for four years.

At a recent trade show, the biodegradable drones attracted considerable interest from organisations worldwide. Nevertheless, some expressed concern about the drone price, which they felt was too high. Talam Co estimates that even a modest reduction in each drone’s price would make the projects unprofitable. Therefore, the operations director suggested that costs could be reduced if drone components were produced in Dunia, a country where Talam Co already gets some of its other products made. However, the public relations director brought up an issue concerning Dunia. He said that several companies in Dunia, which Talam Co trades with, employ young teenage children. These companies pay the education fees for the teenagers and the companies argued that stopping this practice would harm the teenagers’ families financially.

Discuss the impact on Talam Co and its aims arising from the possible sustainability and ethical issues above, and advise on how these issues may be addressed.

**Section D**

IV **Answer the following (1 X 15 = 15 marks)**

1. A project will require an investment in a new asset of $20,000. It will be used on a project for four years after which it will be disposed of on the final day of year 4 for $5,000. Tax is payable at 30% one year in arrears. Tax allowable depreciation is available at 25% (reducing balance), and a balancing allowance or charge should be calculated when the asset is sold. Net operating flows from the project are expected to be $6,000 per year. The company’s cost of capital is 10%. Ignore inflation.

**Required:**

Forecast the free cash flows of the project and determine whether it is worthwhile using the NPV method.