

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

**B.Com–V SEMESTER
SEMESTER EXAMINATION: OCTOBER 2023**

**(Examination conducted in November /December 2023)**

**BCDEF 5523 Advance Corporate Finance**

**(For current batch students only)**

**Time: 2 Hours Max Marks: 60**

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

**Section A**

**I.** Answer ***any five*** of the following (**3 x 5 = 15 marks)**

1. State the assumptions of the theory of relevance proposed by David Durand.

2. What is conglomerate merger? Give an example.

3. Roger Ltd. has an operating cycle of 60 days with minimum desired level of cash balance of Rs. 75000/-. Their cost of goods sold is Rs. 4800000/-. You are required to calculate the expected working capital requirement assuming 360 days in a year.

4. What is pecking order theory?

5. State any 3 criticisms of Walter’s model.

6. What is Leveraged buyout?

**Section B**

**II.** Answer ***any two*** of the following (**5 x 2 = 10 marks)**

7. Explain in brief the various methods used in estimating working capital requirement.

8. A company expects an operating profit of Rs. 100000/-. It has 500000 6% debentures. The overall capitalisation rate is 10%. Calculate the value of the firm and equity capitalisation rate according to the Net operating Income approach. If the debt is increased to Rs. 750000/-, what will be the effect on the value of the firm and equity capitalisation rate?

9. The following information is available in respect of a firm.
Capitalisation rate= 10%
EPS- Rs. 50/-
Return on investment

* Situation 1: 12%
* Situation 2: 8%
* Situation 3: 10%

Show the effect of dividend policy on market price of shares applying Walters model, when the dividend payout ratio is as follows:

1. 20%
2. 40%

**Section C**

**III.** Answer ***any two*** of the following (**10 x 2 = 20 marks)**

10.a) Explain in brief Gordon's approach in dividend decisions
b) The book value per share of a company is Rs 145.50 and its rate of return on equity is 10%. The company follows a dividend policy of 60% payout. Determine the price of its share using Gordon's approach if the capitalisation rate is 12%.

11. From the following information of ABC ltd, Prepare an estimation of working capital requirement for a level of activity of 280000 units p.a

|  |  |
| --- | --- |
| **Element of Cost** | **Amount per unit** |
| Raw material | 70 |
| Direct Labour | 35 |
| Overheads | 65 |
| Total Cost | 170 |
| Profits | 50 |
| Selling Price | 220 |

 The below details are also available:

* Raw materials are in stock for 1 month
* Raw materials are work in progress for ½ month
* Finished goods are in stock on an average for a month
* Outstanding payment in wages is 1½ week
* 25% of the output is sold against cash
* Cash in hand and at bank is estimated at 1,25,000/-
* Credit period allowed to the customer is 2 months
* Credit period allowed for suppliers is 1 month
* Delay in payment of overhead is 1 month

12. Discuss in detail the various reasons for mergers and acquisitions (M&A) in the corporate world.

**Section D**

**III. Answer the following (1 x 15 =15 marks)**

13. Malabar gold is considering venturing into the gold mining business at an estimated cost of Rs. 80 crores.

As per the prediction the gold reserve of the mine would be exhausted in 2 years. There is a 60% possibility that the company would get export orders in addition to domestic sales and in this case, the company would generate a net revenue of Rs. 60 crores. There is a 40% possibility that the revenue of Rs. 40 crores can still be generated without export sales.

In the second year the company may earn following revenue depending on the outcome of demand.

|  |  |  |
| --- | --- | --- |
| DemandOutcome | Scenario 1 | Scenario 2 |
| Rs. 60 Cr | Rs. 40 Cr |
| Cash inflows (in Crores) | Probability | Cash inflows( in Crores) | Probability |
| Low | 40 | 0.4 | 24 | 0.2 |
| Moderate | 50 | 0.5 | 32 | 0.3 |
| High | 60 | 0.1 | 44 | 0.5 |

Using 10% discount rate, advise about the acceptability of the proposal based on decision tree analysis.