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

**M.COM - II SEMESTER**

**SEMESTER EXAMINATION: APRIL 2019**

**CO 8218 - Advanced Financial Management**

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

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

**SECTION-A**

**Answer any TEN of the following questions. Each question carries two marks. (10x2=20)**

1. Define Capital Structure.
2. State the significance of PE Ratio
3. Give the meaning of Leveraged buyout.
4. What is capital rationing?
5. What is decision tree analysis?
6. Mention any four types of systematic risk.
7. What is Arbitrage process?
8. State the reasons for stock Split.
9. Differentiate between risk and uncertainty.
10. State any four types of dividend.
11. What is sensitivity analysis?
12. What is corporate restructuring?

**SECTION- B**

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

1. The following information is available for ABC & Co.

EBIT Rs. 11,20,000

Profit before Tax- Rs.3,20,000

Fixed costs- Rs.7,00,000

Calculate % change in EPS if the sales are expected to increase by 5%.

1. Differentiate between Merger and Acquisition with a suitable example.
2. ABC Ltd. has a capital of Rs.10 lakhs in equity shares of Rs.100 each. The shares currently quoted at par. The company proposes declaration of 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

i) A dividend is not declared?

ii) A dividend is declared?

1. Briefly explain the factors influencing the dividend policy.
2. Write a brief note on capital structure planning & policy.

**SECTION -C**

**Answer any TWO of the following questions. Each question carries TEN marks. (2x10=20)**

1. A particular project has a four-year life with yearly projected net profit of Rs. 10,000 after charging yearly Depreciation of Rs. 8,000 in order to write-off the capital cost of Rs. 32,000. Out of the Capital cost Rs. 20,000 is payable immediately (Year 0) and balance in the next year (which will be the Year 1 for evaluation). Stock amounting to Rs. 6,000 (to be invested in Year 0) will be required throughout the project and for Debtors a further sum of Rs. 8,000 will have to be invested in Year 1. The working capital will be recouped in Year 5.

It is expected that the machinery will fetch a residual value of Rs. 2,000 at the end of 4th year. Income Tax is payable @ 40% and the Depreciation equals the taxation writing down allowances of 25% per annum. Income Tax is paid after 9 months after the end of the year when profit is made. The residual value of Rs. 2,000 will also bear Tax @ 40%. Although the project is for 4 years, for computation of Tax and realization of working capital, the computation will be required up to 5 years.

Taking Discount factor of 10%, calculate NPV of the project and give your comments regarding its acceptability.

(NPV Factors @ 10% - Year 1- 0.9091; Yr. 2 - 0.8264; Yr. 3 - 0.7513; Yr. 4 - 0.6830; Yr.5 - 0.6209).

1. A firm has an EBIT of Rs. 5,00,000 and belongs to a risk class of 10%. Calculate value of the firm and cost of equity if it employs 6% debt to the extent of 30%, 40% or 50% of the total capital fund of Rs. 20,00,000 ?
2. What is Capital Budgeting? Explain in detail the various statistical techniques for Risk Analysis

**SECTION -D**

1. **Answer the following compulsory question. The question carries fifteen marks. (1x15=15)**
2. A company is considering which of two mutually exclusive projects it should undertake. The Finance Director thinks that the project with the higher NPV should be chosen whereas the Managing Director thinks that the one with the higher IRR should be undertaken especially as both projects have the same initial outlay and length of life. The company anticipates a cost of capital of 10% and the net after-tax cash flows of the projects are as follows :

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **0** | **1** | **2** | **3** | **4** | **5** |
| Cash flows  (Rs in 000’s):  Project X  Project Y | (200)  (200) | 35  218 | 80  10 | 90  10 | 75  4 | 20  3 |

You are required to:

(a) Calculate the NPV and IRR of each project. (10 marks)

(b) State, with reasons, which project you would recommend. (2.5 marks)

(c) Explain the inconsistency in the ranking of the two projects. (2.5 marks)

The discount factors are as follows:

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Year** | **0** | **1** | **2** | **3** | **4** | **5** |
| Discount Factors: (10%)  Discount Factors: (20%) | 1  1 | 0.91  0.83 | 0.83  0.69 | 0.75  0.58 | 0.68  0.48 | 0.62  0.41 |