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DATE:14-03-22

Registration number:

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

**BCOM IFA – V SEMISTER**

**END SEMISTER EXAMINATION: OCTOBER 2021**

**(Examination conducted February-March 2022)**

**BC IFA 5419 – Advanced Financial Management -1**

Time- 2 ½ hrs Max Marks-70

**This paper contains \_\_\_2\_\_ printed pages and four parts**

**Section A**

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

1. List out the firms preferred hierarchy for financing under pecking order theory.
2. What is Gambler's fallacy ?
3. What are Spin-offs?
4. What is meant by reverse takeover?
5. Name any two causes for the financial distress
6. What are junk bonds?

**Section B**

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

1. Briefly explain the role of the treasury function in multinationals
2. Highlight various practical arguments against M+M with tax approach to capital structure.
3. Explain the types of business integration/merger with examples
4. A company has identified the following independent investment projects, all of which are divisible and exhibit constant returns to scale. No project can be delayed or done more than once.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Project | Cash flows at time | | | | |
|  | 0 | 1 | 2 | 3 | 4 |
| P  Q  R  S  T | -20  -20  -10  -  -40 | -40  -20  +4  -30  +20 | +20  +60  +4  -30  -40 | +40  -  +4  +40  +40 | +40  -  +4  +40  +40 |

There is only $40,000 of capital available at T0 and only $10,000 at T1, plus the cash inflows from the projects undertaken at T0. In each time period thereafter, capital is freely available. The appropriate discount rate is 10%. Required: Formulate the linear programme.

**Section C**

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

1. Explain the role and responsibility of senior financial advisor.
2. Discuss various options available for solvent companies under corporate restructuring.
3. A project will cost $1.0 million at the start of the project and $0.1million at the end of first year. The company uses a 10% discount rate as a threshold for accepting capital projects. It is expected to have a 5 year life and returns (CFAT) the following:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Year | 1 | 2 | 3 | 4 | 5 |
| CFAT | $100,000 | $300,000 | $300,000 | $400,000 | $500,000 |

Calculate the MIRR if the company uses a 10% discount rate as a threshold for accepting capital projects

**Section D**

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

1. Williams Co is the manufacturer of cosmetics, soaps and shower gels. It also markets its products using its own highly successful sales and marketing department. It is seen as an employer of choice and as such has a talented and loyal work-force with a history of developing new and exciting products which have sold well. It is now considering extending its range, however it has currently a build-up of unfulfilled orders due to a lack of capacity. GSL is a well-known herbal remedy for skin problems. GSL Co was founded by three brothers in the 1950s and until the death of the remaining brother in 2004 has performed well – however the new Chairman has limited experience and the company has not performed well over recent years. GSL has a dedicated team of herbalists who have developed products, which would find a ready market – however, there is insufficient funds and expertise to correctly market these products and market share is low. Williams’ products and GSL’s products are made using similar production technologies and their financial and administrative systems are similar and it is hoped savings can be made here.

Required:

* 1. Identify any potential synergy gains that would emerge from a merger of Williams and GSL. **(7 marks)**
  2. Discuss in detail the reasons behind the failure of mergers **(8 marks)**