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I Semester M.Com. Examination, February - 2020
(CBCS Scheme)
COMMERCE

Paper - 1.5 : Advanced Financial Management

Time : 3 Hours

Max. Marks : 70

SECTION - A

1. Answer **any seven** sub-questions. Each question carries **two** marks. **7x2=14**

(a) Define Cost of Capital.

(b) When do you accept the project under IRR and Profitability Index methods ?

(c) Give the meaning of Corporate Restructuring.

(d) What is sensitivity analysis ?

(e) What is the significance of PE Rates ?

(f) State the assumptions of MM Hypothesis.

(g) Give the meaning of Hedging.

(h) What are derivatives ?

(i) How does Financial leverage impact EPS ?

(j) What is capital structure ?

SECTION - B

Answer **any four** questions. Each question carries **five** marks. **4x5=20**

2. Discuss how Arbitrage process works.

3. Critically analyse Traditional approach to capital structure.

4. Evaluate NPV as a technique of evaluating projects.

5. Modern India CTO expects EBIT at ₹ 6,00,000 and belongs to a risk category of 10%. You are required to calculate the value of the firm are cost of equity capital according to NI approach if it employs 8% debt to the extent of 48% or 60% of the total financial requirement of ₹ 20,00,000.

P.T.O.

6. The mutually exclusive projects are being considered. The following information is available.

	Project X		**Project Y**	
Cost	₹ 6000		₹ 6000	
Cash Flow : Year	₹	Probability	₹	Probability
1	4000	0.2	8000	0.2
2	8000	0.6	9000	0.6
3	12000	0.2	9000	0.2

Assuming cost of capital of 10%, while project do you choose.

7. Company X is to choose between two machines A and B. The two machines are identical. Machine A costs ₹ 3,00,000 and costs for 3 years. It costs ₹ 80,000 P.a to run. Machine B costs ₹ 2,00,000 and will cost for 2 years of costs ₹ 1,20,000 P.a to run. There are real cash flows. Ignore tax opportunity cost of capital is 10%. Which machine would you prefer ?
The P.V. of annuity for 2 years and 3 years at 10% is 1.735 and 2.486 respectively.

SECTION - C

Answer **any three** questions. Each question carries **twelve** marks. **3x12=36**

8. What factors influence optimum capital structure ?

9. What are the various Instruments available for Hedging ?

10. The values of two firms Alpha and Beta are given below :

	Alpha	**Beta**
Expected operating income	50,000	50,000
Total cost of debt	0	10,000
Net Income	50,000	40,000
Cost of equity	0.10	0.11
Market value of shares	5,00,000	3,60,000
Market value of debt	0	2,00,000
Total value of the Firm	5,00,000	5,60,000
Average cost of capital	0.10	0.09
Debt equity Ratio	0	0.556

Compute the values for the firms Alpha and Beta as per MM Hypothesis. Assume that :

(i) Corporate Tax does not exist

(ii) Cost of equilibrium value is 12.5%

11. Following are the particulars relating to two machines.

		Project X	Project Y
		₹	₹
Investment		70,000	70,000
Cash flow : year	1	10,000	50,000
	2	20,000	40,000
	3	30,000	20,000
	4	45,000	10,000
	5	60,000	10,000

Evaluate projects, with NPV and Discountes Payback Period. Cost of capital is expected to be 12%.

12. A company is planning an expansion program. It requires ₹ 60 Crores and can be funded through any of the three following options.

(i) Issue of equity shares of ₹ 100 at par.

(ii) Revive a 15% loan

(iii) Issue 12% preference shares.

The present capital is ₹ 120 crores and EBITs ₹ 24 crores. The tax rate is 25%. After expansion EBIT is expected to be ₹ 34 crores. If your objectives is maximize shareholders earnings. Which option do you prefer ?

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