AFA-MCOM2-A18

ST. JOSEPH'S EVENING COLLEGE (AUTONOMOUS)

II SEMESTER M. COM EXAMINATIONS - APRIL 2018

ADVANCED FINANCIAL MANAGEMENT

Time: 2.5 Hrs **Marks: 70**

SECTION A

Answer any EIGHT of the following questions. **8x2=16**

1. Give the meaning of Utility Theory.
2. Discuss Arbitrage process.
3. Give the meaning of sensitivity analysis.
4. List out the differences between futures and forwards
5. State any 4 determinants of Capital Structure.
6. List out the factors influencing Capital Budgeting.
7. What is Hostile Takeover?
8. What is leveraged buyout?
9. Discuss the significance of P/E Ratio.
10. Give the meaning of Synergy.
11. Give the meaning of opportunity cost of capital.
12. What is hedging?

SECTION B

Answer any THREE of the following questions. **3x8=24**

13. What is finance? Write a note on importance of Finance in an organization.

14. What are the factors that influence Investment decisions under Capital Rationing?

15. Companies U and L are identical in every respect except that the firm 'U' does not use any debt in its financing, while firm 'L' has 2,50,000, 6% debentures in its financing. Both the firms have earnings before interest and tax of Rs. 75,000 and

the equity capitalization rate is 10% . Assuming the corporate tax is 50%, calculate value of firms.

16. Mr. Raju is considering two mutually exclusive projects A and B. You are required to advice him regarding the acceptability of project.

Particulars	Project A	Project B
Cost	50000	50000
Forecast of cash flows PA for 5 years Optimistic Most Likely Pessimistic	 30000 20000 15000	 40000 20000 5000

Cutoff rate is 15%

17. Paramount products Ltd. wants to raise Rs 100. Lakhs for a diversification of project. Current estimates of EBIT from the new project are Rs. 22 Lakhs PA.
Cost of debt will be 15% for amounts up to and including Rs. 50 Lakhs and 18% for additional amounts above 50 lakhs. The equity shares (face value of Rs. 10) of the company have a current market value of Rs 40. This is expected to fall to Rs 32 if debts exceeding Rs 50 lakhs are raised. The following options are under consideration of the company

Option	Debt	Equity
1	50%	50%
2	40%	60%
3	60%	40%

Determine EPS for each option and state which option should be adopted by the company. Tax rate is 50%

SECTION C

Answer any ONE of the following questions **1x15=15**

18. Mr. Ramesh is considering an investment proposal of Rs. 80,000. The expected returns of Rs. 80,000. The expected returns during the life of the investment are as under:

Year 1

Event	Cash inflow (Rs)	Probability
1	32,000	0.3
2	48,000	0.3
3	40,000	0.4

Year 2

Cash inflows in year 1 are:

Event	32,000		48,000		40,000	
	Cash Inflows	Probability	Cash Inflows	Probability	Cash Inflows	Probability
1	60,000	0.2	80,000	0.33	10,000	0.25
2	80,000	0.6	1,20,000	0.34	16,000	0.5
3	1,00,000	0.2	1,60,000	0.33	24,000	0.25

Using 10% as the cost of capital, advice about the acceptability of the proposal.

19. A company is considering which of the two mutually exclusive projects should be undertaken. The finance director thinks that the project which had higher NPV should be chosen; where as the MD thinks that the one with the higher IRR should be undertaken especially for 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	Project X	Project Y
1	35,000	2,18,000
2	80,000	10,000
3	90,000	10,000
4	75,000	4,000
5	20,000	3,000

a. Calculate IRR and NPV of each project.
b. State the reasons for the project that should be recommended.

20. Explain in detail the different capital structure theories with diagrams.

SECTION D

Compulsory Question **15 Marks**

21. A company with a 12% of cost of funds and limited investment funds of Rs. 4,00,000 is evaluating the desirability of several investment proposals.

Project	Initial Investment	Life (years)	Year-end Cash Inflow
A	3,00,000	2	1,87,000
B	2,00,000	5	66,000
C	2,00,000	3	1,00,000
D	1,00,000	9	20,000
E	3,00,000	10	66,000

1) Rank the projects according to profitability index and NPV methods.
2) Determine the optimal investment package.
3) Which projects should be selected, if the company has Rs 5,00,000 as the size of its capital budget?