I Semester M.Com. Examination, January/February 2019
(CBCS)
COMMERCE
Paper – 1.5 : Advanced Financial Management

Time : 3 Hours Max. Marks : 70

SECTION – A

1. Answer **any seven** questions out of ten. **Each** question carries **two** marks **(7×2=14)**
   a) Differentiate the capital structure and financial structure.
   b) What are Leveraged Buyouts ?
   c) What is the significance of financial leverage ?
   d) Define Future Contract.
   e) Explain Decision tree.
   f) What is point of indifference ?
   g) Write a note on Swaps and Forward.
   h) What is risk and uncertainty ?
   i) Define derivatives.
   j) Define time value of money.

SECTION – B

Answer **any four** questions out of six. **Each** question carries **five** marks. **(4×5=20)**

2. Explain various approaches for calculation of cost of equity.

3. There are two firms P and Q which are identical except P does not use any debt in its capital structure while Q has Rs. 8,00,000, 9% debentures in its capital structure. Both the firms have earnings before interest and tax of Rs. 2,60,000 p.a. and the capitalization rate is 10%. Assuming the corporate tax rate is 50%, calculate the value of these firms according to MM Hypothesis.

4. Explain the different Hedging instruments and their features.

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5. Firm A has a value of Rs. 40 million and Firm B has value of Rs. 20 million. The merger of the two companies is expected to cut the total cost of the combined firm by Rs. 10 million. Firm A spends Rs. 30 million cash to acquire firm B. Calculate the cost of the merger. Also determine the net present value of the two firms after merger.

6. From the following information ascertain which project is more risky on the basis of standard deviation and Coefficient of Variation.

Project A		Project B	
Cash inflow	**Probabilities**	**Cash inflow**	**Probabilities**
2000	0.2	2000	0.1
4000	0.3	4000	0.4
6000	0.3	6000	0.4
8000	0.2	8000	0.1

7. Give the meaning of merger. Explain the types of merger with the example based on actuals.

SECTION – C

Answer **any three** of the following. **Each** question carries **12** marks. **(3×12=36)**

8. Suppose a firm has a capital structure exclusively comprising of ordinary shares amounting to Rs. 10,00,000 of Rs. 100 each. The firm now wishes to raise additional Rs. 10,00,000 for expansion. The firm has four alternative financial plans:

   a) It can raise the entire capital by issuing equity shares of Rs. 100 each.

   b) It can raise 50% by issuing Rs. 100 equity shares and 50% by issuing 5% debentures.

   c) It can raise the entire amount by issuing 6% debentures.

   d) It can raise 50% by issuing equity shares of Rs.100 each and 50% as 5% preference share capital.

   Assume that EBIT is Rs. 1,20,000. Which financing plan should the firm select ?

9. How can derivatives be used for risk management ? Explain with example.

10. X Ltd., has under consideration the following two projects. The details are as under :

Particulars	Project X	Project Y
Investment in machinery	Rs. 15,00,000	Rs. 10,00,000
Working Capital	Rs. 5,00,000	Rs. 5,00,000
Life of machinery	6 years	4 years
Scrap value of machinery	10%	10%
Tax Rate	50%	50%
Income Before Depreciation and Taxes :		
1st year	15,00,000	8,00,000
2nd year	9,00,000	8,00,000
3rd year	15,00,000	8,00,000
4th year	8,00,000	8,00,000
5th year	6,00,000	–
6th year	3,00,000	–

Advise the company as to the best alternative using different techniques of capital budgeting. (Cost of capital is 10%).

11. Explain in detail the theories of capital structure.

12. "Wal-Mart acquires flipkart" explain the steps involved and elements in organizational restructuring.
