



PG - 781

**II Semester M.Com. Degree Examination, July/August 2013
(NS) (2007-08 Scheme)
COMMERCE**

2.2 : Advanced Financial Management

Time : 3 Hours

Max. Marks : 80

Instruction : Answer all the Sections.

SECTION - A

1. Answer **any 10** of the following sub questions in about **3-4** lines each. Each sub question carries **2** marks. (10×2=20)
- a) What is capital structure ?
 - b) What is meant by risk ?
 - c) What do you mean by trading on equity ?
 - d) What is WACC ?
 - e) What is profitability Index ?
 - f) What do you mean by simulation ?
 - g) State any two assumptions of capital structure theories.
 - h) What is IRR ?
 - i) Define capital restructuring.
 - j) Mention the difference between futures and forwards.
 - k) What do you mean by Demerger ?
 - l) What is leveraged buyout ?

P.T.O.



SECTION – B

Answer **any three** of the following questions and **each** question carries **five** marks.

(3×5=15)

2. How will a firm go about determining its 'optimal capital structure' ?
3. What are the critical factors to be observed while making capital budgeting decisions under capital rationing ?
4. What would the use of tree diagram be beneficial ? When would it be impossible to use them ?
5. How do you compare the risk factor of two capital projects with the help of standard deviation ?
6. What is the relationship between leverage and cost of capital according to NI and NOI approach ?

SECTION – C

Answer **any three** of the following questions and **each** question carries **15** marks.

(3×15=45)

7. What is capital budgeting ? Discuss its nature, importance and deficiencies of capital budgeting.
8. Write a note on :
 - a) Home made leverage
 - b) NI and NOI approaches
 - c) Arbitrage process
 - d) Reverse leverage
 - e) MM's thesis with corporate taxes.



9. A company has two capital investment proposals, A and B under consideration. Both the projects require investment of Rs. 6,000. The following are the details of possible events, cash inflows and profitability assignment :

Possible events or series of probable cash inflows	Project A		Project B	
	Cash Inflows	Probability Assignments	Cash Inflows	Probability Assignment
	(Rs.)		(Rs.)	
A	5,000	0.20	10,000	0.15
B	6,000	0.30	8,000	0.25
C	8,000	0.40	8,000	0.30
D	8,000	0.20	6,000	0.25
E	10,000	0.10	5,000	0.20

You are required to give your opinion regarding the selection of the project.

10. Calculate the degree of operating leverage, degree of financial leverage and the degree of combined leverage for the following firms and interpret the results :

Particulars	P	Q	R
Output (Units)	3,00,000	75,000	5,00,000
Fixed cost (Rs.)	3,50,000	7,00,000	75,000
Variable cost per unit (Rs.)	1.00	7.5	0.1
Interest Expenses (Rs.)	25,000	40,000	-
Selling price per unit (Rs.)	3.00	25.00	0.50

11. State the steps involved in financial planning. What are the principles governing a financial plan ?