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

**B.COM – V SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2021**

**(Examination conducted in February – March 2022)**

**BC DEF 5518 – Advanced Financial Management**

**Time- 2 1/2 hrs Max Marks-70**

**This paper contains three printed pages and four parts**

**SECTION-A**

**Answer any FIVE of the following questions. Each question carries two marks. (5x2=10)**

1. Differentiate between the optimal capital structure and capital structure.
2. Define Capital Budgeting.
3. Define Fluctuating working capital.
4. What is Cash Management?
5. What is a Leveraged Buyout?
6. What is dividend?

**SECTION- B**

**Answer any THREE of the following questions. Each question carries five marks. (3x5=15)**

1. Differentiate between merger and acquisition.
2. The Ramakrishna Ltd., in considering the purchase of a new investment. Two alternative investments are available (X and Y) each costing Rs. 150000. Cash inflows are expected to be as follows

***Cash Inflows***

|  |  |  |
| --- | --- | --- |
| **Year** | **Investment X Rs.** | **Investment Y Rs.** |
| 1 | 60,000 | 65,000 |
| 2 | 45,000 | 55,000 |
| 3 | 35,000 | 40,000 |
| 4 | 30,000 | 40,000 |

The company has a target return on capital of 10%. Risk premium rate are 2% and 8% respectively for investment X and Y. Which investment should be preferred?

1. Briefly explain the methods of evaluating risk in capital budgeting
2. Examine Modigliani and Miller’s Approach to capital structure

**SECTION -C**

**Answer any TWO of the following questions. Each question carries fifteen marks. (2x15=30)**

1. The earnings per share of a company is Rs. 8 and the rate of capitalization applicable to the company is 10%. The company can adopt a payout ratio of 25% or 50% or 75%. Using Walter’s model of dividend payout, compute the market value of the company’s share if the productivity of retained earnings is (1) 15% (2) 10% and (3) 5%.
2. A manufacturing company has estimated the following variables
3. Sales of 10000 units per year at Rs. 5 per unit
4. Variable cost per unit is Rs. 3
5. Fixed cost of Rs. 5000
6. Project has no salvage value and its estimated life is 3 years
7. The cost of the project is Rs. 21000 and it is financed through retain earnings. Investment in the Net working capital is 10000. The Net working capital investment occurs at the beginning of the project and it is assumed that all Net working capital is converted into cash at the end of project.
8. The company follows straight line method depreciation.
9. The Firms required rate of return is 20%. The tax rate is 34%.

Evaluate the Firm’s sensitivity in the following situations:

a) At the base information – Most Likely.

b) The sale price per unit reduces by 10%. - Pessimistic

c) The sale price increases by 10% per unit. - Optimistic

1. Compute the market value of the firm, value of shares and the average cost of capital from the following information.

Net operating income Rs. 1,00,000

Total investment Rs. 5,00,000

Equity capitalization Rate:

(a) If the firm uses no debt 10%

(b) If the firm uses Rs. 2,50,000 debentures 11%

(c) If the firm uses Rs. 4,00,000 debentures 13%

Assume that Rs. 2,50,000 debentures can be raised at 6% rate of interest whereas Rs. 4,00,000 debentures can be raised at 7% rate of interest.

**SECTION -D**

**Answer the following compulsory question. The question carries fifteen marks. (1x15=15)**

1. (a) A Company expects a net income of Rs. 1,00,000. It has Rs. 2,50,000, 8% debentures. The equity capitalization rate of the company is 10%. Calculate the value of the firm and overall capitalization rate according to the net income approach (ignoring income tax).

(b) If the debenture debts are increased to Rs. 4,00,000. What shall be the value of the firm and the overall capitalization rate?