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B.M.S COLLEGE FOR WOMEN
BENGALURU – 560004

I SEMESTER END EXAMINATION –APRIL- 2024

M.Com. - ADVANCED FINANCIAL MANAGEMENT & PRACTICES
(CBCS Scheme – F+R)

Course Code: MCM105T **QP Code: 11016**
Duration: 3 Hours **Max. Marks: 70**

SECTION -A

1. Answer any seven questions. Each question carries 2 marks. (7X2=14)

a) Define financial Management.
b) What is Modified IRR?
c) What is optimum capital structure?
d) What is leveraged buyout?
e) What is Scrip Dividend?
f) What is Simulation Analysis?
g) What is meant by Post pay back Profitability?
h) What do you mean by systematic risk?
i) What is Capital rationing?
j) Define Factoring.

SECTION-B

Answer any four questions. Each question Carries 5 marks. (4X5=20)

2. Explain the theory Modigliani and miller approach.
3. What is capital rationing and explain its types.
4. Explain the classification of Working Capital.
5. Following is the data available:

Outcome	Project A % of return	Probability	Project B % of Return	Probability
1	12%	0.25	5%	0.25
2	10%	0.5	8%	0.5
3	14%	0.25	20%	0.25

Using standard deviation and coefficient of variation find out which of the alternatives is risky.

6. XYZ ltd earns Rs. 10 per share, Capitalization Rate and Return on Investment are 10% and 12% respectively. Determine optimum dividend pay-out ratio and the price of the share of the pay-out.

7. X Ltd. producing article mostly by manual labour and is considering to replace it by a new machine. There are 2 alternative models M&N of new machine. Prepare a statement of profitability showing the payback period for the following information.

Particulars	M	N
Estimated Life	4 years	5 years
Cost of a machine	₹90,000	₹1,80,000
Estimated savings:		
Scrap	₹ 5000	₹ 8000
Indirect wages	₹ 60,000	₹ 80,000
Total savings:	₹65000	₹ 88,000
Additional cost of maintenance	₹ 8,000	₹ 10,000
Additional cost of supervision	₹ 12,000	₹ 8,000

SECTION -C

Answer any two questions. Each question carries 12 Marks. (2X12=24)

8. The firms A & B are identical in all respect including risk factor except for debt equity mix. Firm A has issued 12% debenture of ₹ 15,00,000 while B has issued only equity. Both the firms earn 30% Earnings before interest and taxes on their total asset of ₹ 25,00,000. Assuming tax rate of 50% and equity capitalisation rate 20% for all equity company. You are required to compute the value of the firm using Net income approach & Net operating income approach

9. X Y Ltd. needs ₹ 50,00,000 for the set up new factory. The new factory is expected to yield annual EBIT of ₹ 10,00,000. In choosing a financial plan X Y Ltd. has a objective of maximising EPS. It is considering the possibility of issue of equity shares and raising debt of ₹ 5,00,000 or ₹ 20,00,000 or ₹ 30,00,000. The market price per share is ₹ 300 and is expected to drop to ₹ 250 If the funds are borrowed in excess of ₹ 20,00,000.

   Funds can be raised at the following rates:

   i) upto ₹ 5,00,000 @ 10%
   ii) over ₹ 5,00,000 to 20,00,000 @ 15%
   iii) over ₹ 20,00,000 @ 20%

   Assume income tax 50%, advice the company

10. A Ltd. Wants to take over B ltd. And the financial details of both the companies are below.

Particulars	A Ltd. ₹	B Ltd. ₹
Equity share capital of ₹ 10 each	2,00,000	1,00,000
Preference share capital	40,000	-
Share premium	-	4,000
Profit & Loss a/c	76,000	8,000
10% Debentures	30,000	10,000
Total liabilities	**3,46,000**	**1,22,000**
Fixed Assets	2,44,000	70,000

Current Assets	1,02,000	52,000
Total assets	**3,46,000**	**1,22,000**
Profit After Tax & Preference dividend	48,000	30,000
Market Price Per share	24	27

You are required to determine the share exchange ratio to be offered to the shareholders of B Ltd. Based on

i. Net asset value
ii. Earnings Per share
iii. Market Price

Which should be preferred from the point of view of A Ltd.

11. Write a note on Decision tree Analysis. Explain the steps involved in a decision tree analysis.

SECTION -D

Compulsory Skill Based Question (1X12=12)

12. A company is considering two mutually exclusive project X and project Y. Project X cost₹ 30,000 and project Y cost ₹ 36000. You have been given below the net present value estimates and probability distribution for each project.

Project X		**Project Y**	
NPV estimates	**Probability**	**NPV estimates**	**Probability**
3000	0.1	3000	0.2
6000	0.4	6000	0.3
12000	0.4	12000	0.3
15000	0.1	15000	0.2

a) Compute the expected net present value of project X & Y.
b) Compute the risk attached to each project that is standard deviation of each probability distribution.
c) Which project do you consider riskier & why?
d) Compute the profitability index of each project.

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