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SBCAF302

III Semester B.Com (A & F) (F & A) Degree Examination,

December/January - 2025/26

(SEP Scheme F + R)

COMMERCE

Advanced Financial Management

Paper : 3.2

Time : 3 Hours

Maximum Marks : 80

Instructions :

Answers should be written in English only.

SECTION - A

Answer any FIVE of the following sub-questions. Each sub-question carries 2 marks. (5x2=10)

1. a) What do you mean by liability swap?
- b) What are Incremental Cash Flows?
- c) What is Risk Analysis?
- d) Define Capital Structure.
- e) State any two techniques of measuring risks in capital Budgeting.
- f) Net Operating income Rs 70 million, tax rate is 30%, debt capital is 140 million, Interest rate is 10% and capitalization rate 18%.
- g) What is demerger?

SECTION - B

Answer any THREE of the following questions. Each question carries 6 marks. (3x6=18)

2. Distinguish between cash flow and profit.

[P.T.O.]



- 3. The beta company Ltd. is considering the purchase of a new investment. Two alternative Investments are available A and B each costing Rs 1,00,000. Cash flows are expected to be as follows:

Cash flows

Years	Invt - A	Invt - B
1	40,000	50,000
2	35,000	40,000
3	25,000	30,000
4	20,000	30,000

The company has a target return on capital of 10% Risk premium rates are 2% and 8% respectively for investments A and B. Which Investment should be preferred?

- 4. Explain the assumptions of Net Income Approach to capital structure.
- 5. Explain different types of a mergers.
- 6. A company earns Rs 5 per share, is capitalized at a rate of 10% and has a rate of return on Investment at 18%. According to walter's approach, what should be the price per share at 25% dividend pay out ratio? Is this the optimum pay out ratio according to walter?

SECTION - C

Answer any THREE of the following questions. Each question carries 14 marks.
(3×14=42)

- 7. Explain the factors influencing cash flow estimations.
- 8. From the following information, ascertain which project is more risky on the basis of standard deviation and also calculate co-efficient of variation:

Project - A		Project -B	
Cash Inflow	Probability	Cash Inflow	Probability
2000	0.1	2000	0.1
4000	0.3	4000	0.2
6000	0.2	6000	0.4
8000	0.2	8000	0.2
10,000	0.2	10,000	0.1



9. Given the following information regarding 2 firms 'L' and 'U'.

Particulars	Firm - L	Firm - U
EBIT	3,00,000	3,00,000
10% Debentures	5,00,000	-
Tax rate	50%	50%
Equity capitalization		
Rate	-	0.15

Compute the value of both the firms using net income approach and net operating income approach.

10. Given the following information about ABC Ltd in respect of the rate of return on investment (r), the cost of capital (k) and earnings per share (E).

Rate of return on investment (r)=(a)15% (b)12%(c)10%

Cost of capital = (k) 12%

Earning per share (E) = Rs 10

Determine the value of its shares using Gordon's model assuming the following:

	D/P ratio (1-b)	Retention ratio (b)
a)	100	0
b)	80	20
c)	40	60

11. A wants to acquire B by Exchanging 0.5 of its shares for every share of B. The relevant financial data is given below:

	A	B
Earnings After Taxes (EAT)	Rs. 9,00,000	Rs. 1,80,000
Number of Equity Shares		
Outstanding	3,00,000	90,000
Market price per share	Rs. 36	Rs. 20

[P.T.O.]

**Calculate:**

- a) EPS & P/E ratio of both the companies before acquisition.
- b) The number of equity shares required to be issued by 'A' for acquiring 'B'.
- c) EPS of 'A' after acquisition.
- d) MPS of 'A' after the acquisition assuming its P/E multiple remains unchanged.

SECTION - D

Answer any ONE following question. This question carries 10 marks. (1×10=10)

12. a) Mr. Risky is considering two mutually exclusive projects A and B. you are required to advise him about the acceptability of the projects from the following information:

	Project -A	Project - B
Cost of the investments	50,000	50,000
Forecast cash inflows		
Per annum for 5 years		
Optimistic	30,000	40,000
Most likely	20,000	20,000
Pessimistic	15,000	5,000

The out off rate may be assumed to be 15%.

(OR)

- b) A Company's current Net Operating income (EBIT) is Rs 8,00,000. The Company has Rs 20 Lakhs of 10% debt outstanding. Its equity capitalization rate is 15% . The company is considering to Increase its debt by raising additional Rs 10 lakshs and to utilize these funds to retire the amount of equity. How ever, due to increased financial risk, the cost A entire debt is likely to Increase to 12% and the cost of equity is 18%.

you are required to compute the market value of the company using traditional model and also make recommendations regarding the proposal.