No. of Printed Pages : **3**

21BCOM6C16

Sl. No.

B.Com. VI Semester Degree Examination, Sept./Oct. - 2024

COMMERCE

DSC-16 : Advanced Financial Management

(NEP)

Time : 2 Hours | Maximum Marks : 60

Note : *Attempt **all** sections according to internal choice.*

SECTION - A

Answer the following sub-questions, each sub-question carries **one** mark. **10x1=10**

1. (a) What is cost of capital ?

(b) What are irredeemable debts ?

(c) What is 'systematic risk' ?

(d) What is 'Decision tree analysis' ?

(e) What is 'theory of irrelevance' ?

(f) Write any two assumptions of Gordon's Approach.

(g) What is 'Leveraged buy-outs' ?

(h) What do you mean by price earning ratio ?

(i) Write the meaning of ethics.

(j) What do you mean by 'Governance Structure' ?

SECTION - B

Answer **any four** of the following questions, each question carries **five** marks. **4x5=20**

2. A company issues 10% debentures of Rs. 6,00,000, the tax rate is 50%. Calculate the cost of debt if the debentures are issued at :

(a) Par

(b) Premium of 15%

(c) Discount of 10%

3. The Sun Ltd. has annual net operating income of Rs. 1,20,000. The company has Rs. 3,00,000 10% debentures. The overall cost of capital of the company is 12%. Determine the value of the company under net operating income approach. Calculate the capitalisation rate.

4. The Lion Ltd. has two alternative investment avenues. M and N with the below information.

Project	**Expected NPV**	**Standard Deviation**
M	2,50,000	1,80,000
N	4,50,000	2,40,000

On the basis of co-efficient of variation, measure the risk associated with the projects and suggest accordingly.

5. From the following information determine the share price using Gordon's model.

Earning per share Rs. 10

Capitalisation rate 10%

Rate of Return 10%

Dividend payout ratio 80%

6. Explain the advantages of mergers.

7. Write a note on 'Transaction cost Theory'.

SECTION - C

Answer **any three** of the following questions, each question carries **Ten** marks. **3x10=30**

8. Galaxy Ltd. has the following capital structure. Calculate weighted average cost of capital using book value based on

(a) Total Cost

(b) Weights

Sources	**Amount**	**Cost**
Equity share capital	12,00,000	12%
Retained earnings	10,00,000	12%
Debentures	8,00,000	10%
Preference share capital	10,00,000	8%

9. The Rainbow Ltd. is considering the purchase of a new investment. There are two alternatives X and Y. The cost of each being Rs. 1,20,000. The expected cash inflows from the alternatives are as below.

Year	Cash inflow X	Cash inflow Y
1	60,000	80,000
2	60,000	70,000
3	55,000	70,000
4	50,000	60,000

The Company has target rate of return on capital at 10%. The risk premium rates for X = 2% and Y = 8%. Which alternative would you recommend ? Present value factors.

Year	PV Factor at 12%	PV factor at 18%
1	0.893	0.847
2	0.797	0.718
3	0.712	0.609
4	0.636	0.516

10. From the following information, calculate the market price of company's share using Walter's model. If the rate of return on investment is :

(a) 15% (b) 10% (c) 5%

The capitalisation rate is 10% and EPS is Rs. 8. Dividend Pay out ratio is :

(i) 50% (ii) 75%

11. Fly Ltd. wants to take over Sky Ltd. The details are furnished below.

Particulars	Fly Ltd.	Sky Ltd.
Fixed Assets	17,28,000	5,02,500
Net current Assets	1,51,500	69,000
Preference Share Capital	37,500	22,500
Equity Share Capital of Rs. 100 each	33,00,000	7,50,000
Share Premium	30,000	45,000
Profit and Loss A/c	42,000	21,000
8% Debenture	15,000	15,000
Profit after Tax and Preference Dividend	99,000	17,250
Market Price per share (Rs.)	66	46
P/E Ratio	30	26

What should be the exchange ratio to be offerred to the shareholders of Sky Ltd. based on :

(a) Net Asset Value (b) EPS

12. Explain the objectives and importance of integrated Reporting.

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