



ST. JOSEPH'S COLLEGE (AUTONOMOUS), BANGALORE-27
B.Com – V SEMESTER
END SEMESTER EXAMINATION, NOV 2020
BCDEF5518: ADVANCE FINANCIAL MANAGEMENT

Time: 2 ½ Hours

Max Marks: 70

This paper contains two printed pages and four parts

Section A

I Answer any five of the following

(5 X 2 = 10 marks)

1. Define capital budgeting?
2. State the theory of traditional approach
3. What Gordon's model on dividend states?
4. Enlist models of cash management
5. Differentiate mergers and acquisition
6. What is receivables management?

Section B

II Answer any three of the following

(3 x 5 = 15 marks)

7. The XYZ Ltd. has earned a profit before interest and tax Rs. 7 lakhs. The company's capital structure includes Rs. 30,000 14% Debenture of Rs. 100 each. The overall capitalization rate of the firm is 16%. Calculate the Total value of firm and the equity capitalization rate as per NOI Approach.
8. The textile manufacturing Company Ltd. is considering an investment in one of the two mutually exclusive proposals – Project M and Project N, which require cash outlays of Rs. 8,50,000 and Rs. 8,25,000 respectively. The certainty equivalent approach is used in incorporating risk in capital budgeting decisions. The current yield on government bond is 6% and this is to be used as the riskless rate. The expected net cash flows and their certainty equivalents are as follows:

Year		1	2	3
Project M	CFs	4,50,000	5,00,000	5,00,000
	CEF	0.8	0.7	0.5
Project N	CFs	4,50,000	4,50,000	5,00,000
	CEF	0.9	0.8	0.7

The management of the company uses Certainty Equivalent (CE) approach to evaluate such type of projects. Which project should be accepted?

9. Highlight the reasons for merger and acquisitions
10. 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%.

Section C

III Answer any two of the following

(2 x 15 = 30 marks)