

M.B.A. - II (CBCS Pattern) Semester-III  
**PCB3EB1 - Advanced Financial Management**

P. Pages : 2

Time : Three Hours



**GUG/W/24/10696**

Max. Marks : 70

- Notes :
1. Attempt **any five** questions.
  2. All questions carry equal marks.
  3. Use PVF Table.

1. Explain the traditional theory of capital structure in detail with an example. **14**
2. What are the motives of holding cash? Explain the factors that determine the cash balance. **14**
3. What are the features of hire purchase agreement? Discuss the different clauses of hire purchase agreement. **14**
4. Discuss the different methods of project selection under risk. **14**
5. Write notes on **any two**. **14**
  - a) Initial public offer (IPO)
  - b) Miller Model
  - c) Indian Depository Receipts
  - d) Valuation of business
6. The modern chemical Ltd requires Rs. 25,00,000 for a new plant this plant is expected to yield EBIT of Rs. 5,00,000 while deciding about the financial plan, the company considers the objective of maximizing EPS. It has three alternatives to finance the project by raising debt of Rs. 2,50,000 or Rs 10,00,000 or Rs. 15,00,000 and the balance, in each case, by issuing equity share. The company's share is currently selling at Rs. 150 but is expected to decline to Rs. 125 in case the fund are borrowed in excess of Rs 10,00,000. The fund can be borrowed at the rate of 10% upto Rs. 2,50,000 at 15% over Rs. 2,50,000 and upto Rs. 10,00,000 and at 20% over Rs. 10,00,000. The tax rate applicable to the company is 50% which form of financing should the company choose? **14**
7. ABC firm is considering to make certain relaxation in credit policy ABC management has evaluated two new policies. Annual credit sales at present Rs. 87,50,000 Proposed credit sales under I-Rs. 105,00,000 and under – II Rs. 118,00,000. Account receivable turnover ratio & bad debts losses are as follows **14**

Existing	7 Times	Rs 2,63,000
Alternative – I	5.25 Times	Rs 5,25,000
Alternative – II	4.2 Times	Rs 7,88,000

Advice the ABC management which policy has to be adopted if rate of return 30% & P/V Ratio is 30%.

8. The following data is relating to an asset to be leased by A Ltd, Cost of equipment is Rs. 1,00,000. 14
- The cost of capital of lessor is 12%
  - The Lessor is in 40% tax bracket.
  - The depreciation is charged to SLM and Salvage value is Rs. 20,000 after 5 years.
  - The direct cost to the lessor is Rs. 500 at the end of the 1<sup>st</sup> year.
  - The estimated cost for general Administration in respect of the equipment to the lessor is Rs. 1,500 per year.
  - The lessee agreed to pay : An Annual rent of Rs. 36,000 for 5 years, a security deposit of Rs. 3,000 which is refundable at the end of the lease term and a sum of Rs. 1350 as non-returnable management fees payable at the time of inception of the lease. Evaluate the proposal from the point of view of the lessor.

9. Daily demand for pieces of bread at grocery store is given by the following probability Distribution 14

Daily Demand	100	150	200	250	300
Probability	0.20	0.25	0.30	0.15	0.10

If a piece of bread is not sold the same day, it can be disposed of at 15 paisa per piece at the end of the day. Otherwise the price of a fresh piece is 49 paisa. The cost per piece to the store is 25 paisa. If optimum level of stocking is 200 pieces of bread daily, then find.

- Expected profit (EMV)
- Expected value of perfect Information (EVPI)

10. S Ltd is being acquired by L Ltd on a share exchange basis. 14

Particular	L Ltd.	S Ltd.
Profit after Tax (Rs)	56,00,000	21,00,000
Equity Share Outstanding	10,00,000	8,40,000
EPS (Rs/Share)	5.60	2.50
P/E ratio	12.50	7.50

Calculate :

- The market value per share (pre-merger)
- The maximum exchange ratio that the L ltd. should offer without the dilution of
  - EPS
  - MPS.

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