

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

P. Pages : 2

Time : Three Hours



**GUG/S/25/10696**

Max. Marks : 70

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

1. Explain the use of 'EBIT-EPS' analysis for designing capital structure of a company. **14**
2. What are the objectives of cash management? What are the basic strategies of cash management. **14**
3. Discuss the features and different elements of leasing. **14**
4. What are the basic steps are involved in the credit investigation process? **14**
5. Write notes on **any two**. **14**
  - a) Green shoe option
  - b) Venture capital
  - c) Carbon credit
  - d) The concept of merger and its types
6. Calculate the level of EBIT at which the EPS indifference point between the following financing alternatives will occur. **14**

Equity share capital of Rs. 6,00,000 and 12% debenture of Rs. 4,00,000.  
Equity share capital of Rs. 4,00,000 14% preference share capital of Rs. 2,00,000 and 12% Debentures of Rs. 4,00,000.  
Assume the corporate tax rate is 35% and par value of equity share is Rs. 10 in each case.
7. X Ltd currently has an annual turnover of ₹ 20 Lacks and an average collection period of 4 week. The company proposes to introduce a more liberal credit policy which they hope will generate additional sales as shown below. **14**

Proposed credit policy	A	B	C	D
Increases in collection period (Weeks)	2	4	6	8
Sales (Rs)	2,00,000	2,50,000	3,50,000	5,00,000
% of default	2	3	5	8

The selling price of product is Rs. 10 and P/V Ratio is 30% the current bad debt loss is 1% and desired rate of return on investment is 20%. For the purpose of calculation a year is to be taken to comprise of 50 weeks Indicate which of the above policies you would recommend the company to adopt.
8. Diligent Ltd. is considering the lease of an equipment which has a purchase price of Rs. 3,50,000. The equipment has an estimated economic life of 5 years with a salvage value zero. As per the income Tax rule, a written down depreciation at 25% is allowed. The lease rentals per year are Rs. 1,20,000. Assume that the company's corporate tax rate is 50%. If the before tax rate of borrowing for the company is 16%. Should the company lease the equipment. **14**

9. Delta corporation is considering an investment in one of the two mutually exclusive proposals. Initial investment for project A Rs. 1,70,000 and project B of Rs. 1,50,000. The current yield on treasury bill is 5% and the company uses this as riskless rate. Expected values of net cash inflow with their certainty - equivalents use. 14

Year	Project A		Project B	
	Cash Flow (Rs)	Certainty Equivalent	Cash Flow (Rs)	Certainty Equivalent
1	90,000	0.8	90,000	0.9
2	1,00,000	0.7	90,000	0.8
3	1,10,000	0.5	1,00,000	0.6

- Which project should be acceptable to the company.
- Which project is riskier and why?
- If the company was to use the RADR method, which project would be analyzed with higher rate.

10. A Ltd wants to acquire P Ltd. and has offered a swap ratio of 1:2 (0.5 shares for everyone share of P Ltd.) Following information is provided. 14

Particular	A Ltd.	P Ltd.
PAT (Rs)	18,00,000	3,60,000
Equity Share Outstanding	6,00,000	1,80,000
EPS (Rs/Share)	3	2

Calculate-

- The no. of equity share to be issued by A Ltd. for acquisition of P. Ltd.
- What is the EPS of A ltd. after the acquisition.
- Determine the equivalent EPS of P Ltd.
- What is the expected MPS of A ltd after the acquisition assuming P/E remains unchanged.
- Determine the market value of the merged firm.

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