

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

P. Pages : 2

Time : Three Hours



GUG/S/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 options for investing surplus funds? Also explain strategies for managing surplus funds. 14
3. What are the features of private equity? Explain its advantages & disadvantages. 14
4. Explain balance scorecard with its four perspectives in detail. 14
5. Write a short note on **any two**. 14
 - a) Miller Model
 - b) Venture capital
 - c) Parta system
 - d) Market value added method
6. Calculate the level of EBIT at which the EPS indifference point between the following financing alternatives will occur. 14

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

Proposed credit policy	Increase in		
	Collection period (weeks)	Sales (₹)	% of default
1	2	2,00,000	2%
2	4	2,50,000	3%
3	6	3,50,000	5%
4	8	5,00,000	8%

The selling price of the product is ₹10 and variable cost ₹7/unit. The current bad debt loss is 1% and the desired rate of return on investment is 20% for the purpose of calculation, a year is to be taken to 52 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 ₹3,50,000. The equipment has an estimated economic life of 5 years with a salvage value zero. As per the income tax rules, WDV 25% is allowed. The lease rentals per year. ₹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?

9. Delta corporation is considering an investment in one of the two mutually exclusive proposals. Initial investment for project A ₹1,70,000 and project B of ₹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.

Year	Project A		Project B	
	CF	CE	CF	CE
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. S Ltd is being acquired by L Ltd on a share exchange basis.

Particular	L ltd	S ltd
Profit after tax (₹)	56,00,000	21,00,000
No. of shares	10,00,000	8,40,000
EPS (₹)	5.60	2.50
P/E Ratio	12.5	7.5

Calculate :

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