

1856

MBA 3rd Semester Examination
Advanced Financial Management (NS)

FM-01

Time : 3 Hours

Max. Marks : 60

The candidates shall limit their answers precisely within the answer-book (40 pages) issued to them and no supplementary/continuation sheet will be issued.

SECTION - A

Answer all the questions. Each question carries 2 marks.

1. Distinguish between risk and uncertainty.
2. What is horizontal merger?
3. Explain Leveraged Buyouts.
4. What are the assumption of CAPM?
5. Explain expected monetary value.
6. Illustrate how a break even is calculated?
7. Explain synergies.
8. Explain operating leverage.
9. What is current asset?
10. What do you mean by stock dividend? (2×10=20)

[P.T.O.]

SECTION - B

Answer any four of the following. Each question carries 5 marks.

11. Discuss the following in the context of a goal programming model, objective functions, economics constraint and goal constraints.
12. Discuss the steps involved in decision free analysis.
13. Define "Certainly equivalent factor". How does it differ from the probability of an event occurring?
14. Explain the legal and procedural aspects of merger decisions.
15. Define systematic and unsystematic risks. Give examples of both.
16. Apple manufacturing company provides the following financial information for the year ended 31st March, 2014.

	₹ (lakhs)
Fixed cost	20.0
Break even sales	100.0
Profit	5.0

Selling price per units is ₹ 100. The company is contemplating to reduce the selling price by 10%, so as to augment sales. Find out new break even point in case of reduction in sales price. (4×5=20)

SECTION - C

Attempt only two questions from this section. Each question carrying 10 marks.

17. What are the primary causes of business failure? What type of actions commonly cause business failure? What alternatives are available to the falling firm?

18. Kelirm Manufacturing and Spinning is considering two mutually exclusive projects. The company uses a certain equivalent approach. The estimated cash flows and certainty equivalent for each project are as follows:

Year	Project 1		Project 2	
	Cash flows ₹	Certainty equivalent	Cash flows ₹	Certainty equivalent
0	15,000	1.00	20,000	1.00
1	7,500	.95	12,500	.90
2	7,500	.85	10,000	.80
3	5,000	.70	7,500	.70
4	5,000	.65	5,000	.60

Which project should be accepted, if risk free discount rate is 5%?

19. ABC company is considering the acquisition of XYZ company with common stock. The relevant financial information is as follows:

	ABC	XYZ
Present earnings (in thousands)	₹ 4000	₹1000
Common shares outstanding (in thousands)	3,000	800
EPS	2.00	1.25
P/E Ratio	12	8

ABC plans to offer a premium of 20% over the market price of XYZ.

- (a) What is the ratio of exchange of stock? How many new shares will be issued.
- (b) What are the EPS for the serving company immediately following the merger?
20. Discuss M-M approach to dividend decision on valuation of firm. What is the validity of this model in real life situation?

(2×10=20)