**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BENGALURU -27**

 **BCOM-IFA – V SEMESTER**

**SEMESTER EXAMINATION: OCTOBER 2023**

**(Examination conducted in November/December 2023)**

**BCIFA 5323: ADVANCED FINANCIAL MANAGEMENT**

**Time: 2 Hours Max Marks: 60**

**This paper contains \_\_\_\_\_\_ printed pages and \_\_\_\_\_ parts**

**Section A**

I. Answer any **five** of the following  **(5 X 3 = 15 marks)**

1. What is anchoring bias in the stock market?
2. Which of the following theory/s are known as relevance theory of dividend.
3. Give the meaning of reverse takeovers.
4. What is known as compromise approach in the capital structure
5. Why MIRR is better technique than IRR in capital budgeting.
6. Give the meaning of Company Voluntary Arrangement (CVA)

**Section B**

II. Answer any **TWO** of the following **(2 x 5 = 10 marks)**

1. Discuss the various functions of international treasury.
2. Discuss various reasons for the failure of mergers/acquisitions.
3. A project requires an initial investment of $40,000 and will generate annual cash flows as follows:                                                                                                                                                   Year Cash flow $
4. 8,000
5. (4000)
6. 12000
7. 15200
8. 20000

The firm's financing rate is 9%, and its reinvestment rate is 6%. Calculate MIRR and interpret the results

**Section C**

III. Answer any **two** of the following **(2 x 10 = 20 marks)**

1. KES Ltd. is an all equity financed company with a market value of ₹ 25,00,000 and cost of equity Ke = 21%. The company wants to buyback Equity Shares worth ₹ 5,00,000 by issuing and raising 15% perpetual debt of the same amount. Rate of tax may be taken as 30%. After the capital restructuring and applying MM Model (with taxes), you are required to calculate :
	1. Market value of KES Ltd.
	2. Cost of Equity Ke.
	3. Weighted average cost of capital and comment on it.
2. Briefly discuss the reasons for corporate reconstruction of solvent companies. Also suggest the various options available for such companies.
3. Williams Co is the manufacturer of cosmetics, soaps and shower gels. It also markets its products using its own highly successful sales and marketing department. It is seen as an employer of choice and as such has a talented and loyal work-force with a history of developing new and exciting products which have sold well. It is now considering extending its range, however it has currently a build-up of unfulfilled orders due to a lack of capacity.

GSL is a well-known herbal remedy for skin problems. GSL Co was founded by three brothers in the 1950s and until the death of the remaining brother in 2004 has performed well – however the new Chairman has limited experience and the company has not performed well over recent years. GSL has a dedicated team of herbalists who have developed products, which would find a ready market – however, there is insufficient funds and expertise to correctly market these products and market share is low. Williams’ products and GSL’s products are made using similar production technologies and their financial and administrative systems are similar and it is hoped savings can be made here. You are required to identify any potential synergy gains that would emerge from a merger of Williams and GSL.

**Section D**

IV **Answer the following (1 X 15 = 15 marks)**

1. A project will require an investment in a new asset of $20,000. It will be used on a project for four years after which it will be disposed of on the final day of year 4 for $5,000. Tax is payable at 30% one year in arrears. Tax allowable depreciation is available at 25% (reducing balance), and a balancing allowance or charge should be calculated when the asset is sold. Net operating flows from the project are expected to be $6,000 per year. The company’s cost of capital is 10%. Ignore inflation.

**Required:**

Forecast the free cash flows of the project and determine whether it is worthwhile using the NPV method.