MS – 407

VI Semester B.Com. Examination, May/June 2013
(Semester Scheme)
COMMERCE
Elective Paper – 3 (b) : Corporate Financial Policy

Time : 3 Hours | Max. Marks : 90

Instruction : *Answers should be written completely either in* ***English*** *or in* ***Kannada****.*

SECTION – A

Answer **any ten** of the following sub-questions, in not exceeding **four** lines **each**. **Each** sub-question carries **two** marks. **(10×2=20)**

1. a) Mention any two advantages of retained earnings.
   b) Distinguish between equity shares and debentures.
   c) Define vision.
   d) What is meant by profit maximisation ?
   e) Define intangible assets.
   f) Give the meaning of Corporate Financial Policy.
   g) State the formula for P/E Ratio.
   h) Give the meaning of Brand Equity.
   i) What is meant by Financial Risk ?
   j) What is self generated brand ?
   k) What are synergy benefits ?
   l) State the various squrces of finance.

SECTION – B

Answer **any five** of the following questions. **Each** question carries **five** marks. **(5×5=25)**

2. Briefly explain various problems in accounting for brand equity.
3. Briefly explain the factors to be considered in formulating financial policy.
4. Briefly explain the guiding principles of fund availability.

P.T.O.

5. Briefly explain the various types of brand.
6. Briefly explain the financial problems of merger.
7. X Ltd. wants to take over 'Y' Ltd. and the financial details of both are as follows :

	X Ltd.	Y Ltd.
	₹	₹
Fixed Assets	2,44,000	70,000
Current assets	1,02,000	52,000
	3,46,000	**1,22,000**
Preference share capital	40,000	–
Equity share capital of Rs. 10/- each	2,00,000	1,00,000
Share premium	–	4,000
Profit and Loss A/c	76,000	8,000
8 % debentures	30,000	10,000
	3,46,000	**1,22,000**
Profit after tax and preference dividend	48,000	30,000
Market Price	48	54

What should be share exchange ratio to be offered to the Shareholders of 'Y' Ltd. based on

i) Net Asset value and ii) EPS ?

8. Following information is available in respect of P Ltd. Q Ltd. and R Ltd. R Ltd. is looking to acquire P Ltd. or Q Ltd. or both. Swap ratio to be offered is to be determined on the basis of P.E. Ratio.

	R Ltd.	Q Ltd.	P Ltd.
No. of Equity shares	1,80,000	72,000	36,000
EPS (Rs.)	4	2	4
P.E. Ratio	60	74	46

Find out the EPS of R Ltd. after merger of Q Ltd. P Ltd. and both. Which one would you suggest R Ltd. should go for ?

9. A company is being acquired by B company on a share exchange basis. The following data are available.

	A	B
Profit after Tax (lakhs Rs.)	40	21
No. of shares (lakhs Rs.)	10	8.4
EPS (Rs.)	4	2.5
P/E Ratio	12	8

Find the pre-merger market value per share of both the companies.

SECTION – C

Answer **any three** of the following. **Each** question carries **fifteen** marks. **(3×15=45)**

10. Explain the interface of corporate financial policy and other managerial function.
11. Explain the different methods of corporate valuation.
12. Explain various determinants of capital structure.
13. M Company is taking over N Company. The shareholders of N company would receive 0.8 shares of M company for each share held by them. The merger is not expected to yield in Economies of scale and operating synergy. The relevant data for the two companies are as follows :

	M Co.	N Co.
Net sales (Rs. Crores)	335	118
PAT (Rs. Crores)	58	12
No. of shares (Crore)	12	3
EPS (Rs.)	4.83	4.00
M.V. Per Share (Rs.)	30	20
P/E Ratio	6.21	5.00

For the combined company, you are required to calculate

a) EPS b) P/E Ratio c) M.V. Per Share

d) No. of Shares e) Total Market Capitalisation.

14. 'D' Ltd. wants to acquire 'E' Ltd. and has offered one share for every two shares held. The following information is provided.

	'D' Ltd.	'E' Ltd.
PAT (Rs.)	36,00,000	7,20,000
Equity shares	12,00,000	3,60,000
EPS (Rs.)	3	2
P/E Ratio (in times)	10	7
Market Price per share (Rs.)	30	14

You are required to calculate :

a) The number of equity shares to be issued by 'D' Ltd. for acquisition of 'E' Ltd.

b) What is the EPS of 'D' after acquisition ?

c) Determine the equivalent earnings per share of 'E' Ltd.

d) What is expected market price per share of 'D' Ltd. after acquisition assuming its P.E multiple remains unchanged.

e) Determine the market value of the merged firm.