41

VI Semester B.Com. (TTM) Degree Examination, July/August 2024
(NEP Scheme)
TOURISM AND TRAVEL MANAGEMENT
6.1 : Advanced Financial Management

Time : 2½ Hours Max. Marks : 60

Instruction : *Answer **all** the Sections in **English only**.*

SECTION – A

Answer **any six** of the following. **Each** question carries **2** marks. **(6×2=12)**

1. a) What is Transaction cost ? **2**
   b) Define Dividend. **2**
   c) What is Horizontal Merger ? State with example. **2**
   d) What is Purchasing Power Risk ? **2**
   e) State any 2 differences between Merger and Acquisition. **2**
   f) What do you mean by Capitalization ? **2**
   g) What is sunk capital ? **2**
   h) A company issues 1000, 10% preference shares of ₹ 100 each at a discount of 5%. Cost of raising capital is ₹ 2,000. Compute cost of preference (k_p). **2**

SECTION – B

Answer **any three** of the following. **Each** question carries **4** marks. **(3×4=12)**

2. The EBIT of Vishal Company is ₹ 1,00,000. It has 8% debt of ₹ 4,00,000. The equity capitalization rate (k_e) of the company is 12.5%. Calculate the Market value (s) according to Net Income Approach. **4**

3. Explain the ethical issues in Financial Management. **4**

4. Likhil Company Ltd. belongs to a risk class of which the appropriate rate is 15%. It has 10,000 shares selling at ₹ 200 each. The company is contemplating the declaration of ₹ 5 per share as dividend at the end of the current year. **4**

   Calculate the price per share assuming :

   i) Dividends are declared.

   ii) Dividends are not declared.

5. Briefly explain the motives of Merger. **4**

6. The project is evaluated using certainty equivalent approach. Based on the given information, advice the management. **4**

	Project A	
Year	**Cash flows (₹)**	**Co-efficient**
1	15,000	0.8
2	15,000	0.7
3	15,000	0.6
4	15,000	0.5

The total outflow of cash is ₹ 25,000. The risk free borrowing is 6%. Evaluate the proposal.

SECTION – C

Answer **any three** of the following. **Each** question carries **12** marks. **(3×12=36)**

7. Briefly explain the following capital structure theories.

   a) Net Income (NI) Approach. **6**

   b) Modigliani and Miller (MM) Approach. **6**

8. Kempamma Ltd. issues 12% debentures of ₹ 8,00,000. The tax rate applicable is 50%. Compute cost of debenture (k_d) : **12**

   a) At par

   b) At 10% premium

   c) At 10% discount.

9. From the following information, calculate company share value according to Gordon's approach. **12**

Cost of capital	15%		
Earnings per share	₹ 10		
Assumed rate of return on Investment (r)	16%	15%	14%

Cases	1	2	3	4
Dividend payout Ratio (1 – b)	10	20	30	40
Retention ratio	90	80	70	60

Calculate, when $r > k_e$, $r = k_e$ and $r < k_e$ for all the cases.

10. Two mutually exclusive projects whose information is given below. Advice the management on acceptability of the project whose cut-off rate is 15%. **12**

(Amt in ₹)

Particulars	**Project A**	**Project B**
Cost of the project	60,000	60,000
Cash flow per year forecast for 5 years		
Optimistic	40,000	30,000
Most likely	25,000	30,000
Pessimistic	20,000	10,000

Comment on the above projects.

11. Akash Ltd. wants to take over Srikanth Ltd. and the financial details of both the companies are as below : **12**

(Amt in ₹)

Particulars	**Akash Ltd.**	**Srikanth Ltd.**
Equity share capital of ₹ 10 each	1,00,000	50,000
Preference share capital	20,000	–
Share premium	–	2,000

Profit and Loss account	38,000	4,000
10% Debentures	15,000	5,000
Total Liabilities	**1,73,000**	**61,000**
Fixed Assets	1,22,000	35,000
Current Assets	51,000	26,000
Total Assets	**1,73,000**	**61,000**
Profit after tax and preference dividend	48,000	30,000
Market Price of Share (MPS)	24	27

You are required to determine the share exchange ratio to be offered to the shareholders of Srikanth Ltd., based on :

i) Net assets value

ii) Earnings per share

iii) Market price

Which should be preferred from the point of view of Akash Ltd. ?
