

**Dr. B. B. HEGDE FIRST GRADE COLLEGE, KUNDAPURA**  
**II Internal Assessment Examination, MAY 2024**  
**Advanced Financial Management**  
**(III B. Com 'B' / III B.Com 'D')**

**TIME: 1.30 hour**

**Max.Marks:40**

**SECTION-A**

Answer **any five** of the following questions:

**(5×2=10)**

1. What is Risk ?
2. State any 2 assumptions of Net Income Approach.
3. What does Standard deviation indicates in Risk analysis?
4. What is the difference between a leveraged and an unleveraged capital structure?
5. Aradhya Ltd is considering starting a new project for which the following information is gathered.

<b>NPV(₹)</b>	8,000	12,000	14,250	20,000
<b>Probability</b>	0.3	0.3	0.2	0.2

Calculate the Expected NPV.

6. Aman Industries expects the net operating income of ₹ 2,00,000. It has ₹ 10,00,000 at 6% debenture, the Overall capitalization rate of the company is 10%. Determine the Value of equity and Market value of the firm as per Net operating Income approach.

**SECTION-B**

Answer **any Three** of the following questions:

**(5×3=15)**

7. Explain the different types of Risks in Capital Budgeting.
8. Briefly narrate the Modigliani-Miller approach to capital structure decision.
9. Smart Pvt.Ltd. has a current net operating income of ₹ 5,00,000. The company presently raised entire fund requirement of ₹ 30,00,000 by issue of equity share capital with a equity capitalization rate of 5%. But now company is planning to redeem a part of equity capital by introducing debt financing from the following option,

<b>Particulars</b>	<b>Option-I</b>	<b>Option-II</b>
<b>Debt ratio</b>	40%	60%
<b>Interest ratio</b>	12%	14%
<b>Equity Capitalization Rate</b>	16%	18%

You are required to calculate the value of the firm and overall cost of the capital for different options under Traditional Approach.

10. Guru Ltd considering two mutually exclusive projects. Investment outlay of both projects is ₹ 5,00,000 and each expected to have a life of 5 years. The Discount rate is 7%, the PVF at 7% for 5 years is 4.100. Under three possible situations their annual cash flows and probabilities are as under:

Situation	Probabilities	Cash Flows (₹)	
		Project X	Project Z
Good	0.2	8,50,000	6,00,000
Average	0.5	4,00,000	5,00,000
Worse	0.3	1,00,000	1,00,000

Determine the Expected Net Present Value of the projects.

### SECTION-C

Answer **any One** of the following question:

(15×1=15)

11. School Book Company is considering 2 mutually exclusive projects Sunrise and Skyline. Project Sunrise costs ₹ 3,00,000 and Project Skyline costs ₹ 3,60,000. You have given below NPV and probability distribution for each product.

Project Sunrise		Project Skyline	
NPV(₹)	Probability	NPV(₹)	Probability
30,000	0.10	30,000	0.20
60,000	0.40	60,000	0.30
1,20,000	0.40	1,20,000	0.30
1,50,000	0.10	1,50,000	0.20

Compute the following

- The Expected NPV.
  - The Risk associated to each project (Standard Deviation).
  - Comment on your answer and state which project would you recommend based on Coefficient of variation?
12. The following data is related to 2 companies belongs to the same risk class.

Particulars	Atlas	Titan
Net Operating Income	₹ 2,40,000	₹ 2,40,000
10% Debenture	-	₹ 7,20,000
Equity Capitalization Rate	15%	-

You are required to Calculate Value of the Firm, Equity Capitalization Rate and Overall Cost of the Capital for each company for the following situations as per MM hypothesis,

- No Tax liability.
- Tax rate of 40%.

*[Signature]*  
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