c) Explain the reasons for mergers or amalgamation of companies. **7**

d) PQR Ltd. is considering three financial plans for which the key information is as below. **7**

i) Total investment to be raised Rs. 4,00,000

ii) Plans of Financing proportion.

Plans	Equity	Debt.	Preference shares
A	100%	---	---
B	50%	50%	---
C	50%	---	50%

iii) Cost of debt 8%

iv) Cost of preference shares 8%

v) Tax Rate 50%

vi) Equity shares of the face value of Rs. 10 /- each will be issued at a premium of Rs. 10 per share.

vii) Expected EBIT is Rs. 1,60,000
Determine EPS for each plan and comment.

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M.B.A. Semester - IV - Paper MBA/4101/CGF

Financial Decision Analysis

P. Pages : 6

Time : Three Hours Max. Marks : 70

Notes :
1. Attempt all questions.
2. Figures to the right indicate marks.
3. Use of Annuity tables and scientific calculator is permitted.

SECTION – A

1. a) "Return on Investments is considered to be the master ratio which reflects the overall performance of the company" Elucidate and show by examples how various managerial decisions affect ROI. **14**

OR

b) Define and distinguish between fund flow and cash flow statement. What significant inferences are brought out by the statement of fund flow? Describe its limitations. **14**

SECTION – B

2. a) Explain the various quantitative methods which are useful to business for decision making under uncertainty. **7**

b) A company is considering project x and project y with following information **7**

Project	Expected NPV (Rs.)	Standard deviation
x	1,22,000	90,000
y	2,25,000	1,20,000

i) Which project will you recommend based on the above data?

ii) Explain whether your opinion will change if you use coefficient of variation as a measure of risk.

OR

c) Differentiate between 'certain', 'uncertain' and 'risky' situations. **7**

d) From the following information of a company producing three products you are required to compute **7**

a) composite P/V ratio

b) composite Break even point.

Product	Sale Revenue (Rs.)	Variable Cost (Rs.)
x	20,000	10,000
y	40,000	14,000
z	60,000	36,000

Fixed cost Rs. 50,000/-

3. a) Explain the major causes of business failure. **7**

b) Black & Co. plans to acquire White & Co. The relevant financial details of the two firms prior to the merges announcement are **7**

	Black & Co.	White & Co.
Market price per share	Rs. 70	Rs. 32
No. of Outstanding shares	20 millions	15 millions

The merger is expected to generate gains which have a present value of Rs. 200 million the exchange ratio agreed to is 0.5. What is the true cost of the merger from the point of view of Black & Co.

OR

http://www.sgbauonline.com

4. a) Discuss the factors which are relevant for determining the dividend pay - out ratio. **7**

b) The following information is available in respect of a firm. **7**

Capitalisation rate – 10%

Earnings per share – Rs. 50.

Assumed rate of return on investments :

i) 12% ii) 8% iii) 10%

Show the effect of dividend policy on market price of shares applying 'Walter's formula.

OR

c) Under what conditions are the investment, financing and dividend decisions of a firm interrelated? Explain. **7**

d) The book value per share of a company is Rs. 145.50 and its rate of return on equity is 10%. The company follows a dividend policy of 60% pay out what is the price of its share if the capitalisation rate is 12%? **7**

SECTION – C

5. Compute the internal rate of return and also advise the lessor about the leasing out decision if its expected minimum rate of return is 15% and given **14**

Initial investment Rs. 60,000
Life of the Asset 4 Yrs.

Estimated Net Annual Cash flows.

	Rs.
1st Year	15,000
2nd Year	20,000
3rd Year	30,000
4th Year	20,000

Note Present value factor at various rates of discount.

Year	10%	12%	14%	15%	16%
1	·909	·892	·877	·869	·862
2	·826	·797	·769	·743	·756
3	·751	·711	·674	·657	·640
4	·683	·635	·592	·571	·552

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