MS – 410

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VI Semester B.Com. Examination, May/June 2014
(Semester Repeaters Scheme)
(Prior to 2013 – 14)
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 10** of the following sub-questions. **Each** sub-question carries **2** marks.

(10×2=20)

1. a) State the various sources of Finance.

   b) What are synergy benefits ?

   c) What is meant by Brand Equity ?

   d) What is meant by financial risks ?

   e) State the formula for price earning ratio.

   f) Give the meaning of profit maximisation.

   g) What is meant by wealth maximisation ?

   h) Define tangible assets.

   i) Define vision.

   j) Give two differences between equity shares and debentures.

   k) Give the meaning of Corporate Financial Policy.

   l) Give the meaning of retained earnings.

P.T.O.

SECTION – B

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

2. Briefly explain the factors to be considered in formulating financial policy.
3. Briefly explain the advantages of debentures.
4. Briefly explain the financial problems of merger.
5. Briefly explain the various types of brand.
6. Briefly explain the various forms of merger.
7. 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. or both. Which one would you suggest 'R' Ltd. should go for ?

8. 'X' Ltd. wants to take over 'Y' Ltd. and the financial details of both are as follows.

	'X' Co. Ltd. Rs.	**'Y' Co. Ltd. Rs.**
Fixed Assets	2,44,000	70,000
Current assets	1,02,000	52,000
Total assets	**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' Co. Ltd. based on

i) Net asset value and

ii) E.P.S.

9. 'P' Company is being acquired by 'Q' Company on a share exchange basis. The following data are available.

	'P' Co.	'Q' Co.
Profit after tax (lakhs Rs.)	40	21
No. of shares (lakhs Rs.)	10	8.4
E.P.S. (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 **15** marks. **(3×15=45)**

10. Explain the various legal and procedural aspects of mergers.

11. Explain the different methods of corporate valuation.

12. Explain the various determinants of sound capital structure.

13. 'S' Company is taking over 'M' Company. As per the understanding between the management of the two companies, shareholders of 'M' Company would receive 0.7 shares of 'S' Company for each share held by them. The relevant data for the two companies are as follows.

Particulars	**'S' Co.**	**'M' Co.**
Net Sales (Rs. lakhs)	80	30
Profit after Tax (Rs. lakhs)	16	4
No. of shares (lakhs)	3.2	1
EPS (Rs.)	5	4
Market value per share	30	20
Price Earning Ratio	6	5

You are required to calculate :

a) Premium paid by 'S' Co. to the shareholders of 'M' Company

b) Total number of shares after the merger

c) Combined EPS

d) Combined PE Ratio

e) Market value per share

f) Total market capitalisation after the merger.

14. 'X' Company wants to acquire 'Y' Company and has offered one share for every two shares held. The following information is provided

Particulars	**'X' Ltd.**	**'Y' Ltd.**
PAT (Rs.)	36,00,000	7,20,000
Equity shares	12,00,000	3,60,000
EPS (Rs.)	3	2
PE Ratio	10	7
Market price per share (Rs.)	30	14

You are required to calculate :

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

b) What is the EPS of 'X' Ltd after acquisition ?

c) Determine the equivalent EPS of 'Y' Ltd.

d) What is the expected market price per share of 'X' Company Ltd. after acquisition assuming its price earning multiple remains unchanged.

e) Determine the market value of the merged firm.