7085

MMS/D07
FINANCIAL DECISION ANALYSIS
Paper-FM-301

Time: Three Hours] [Maximum Marks: 70

Note: Attemptfive questions in all. Q.No. 1 is compulsory. Al1 questions carry equal marks.

1. Short answer type questions:
   (i) Explain the reasons of business failure.
   (ii) What is Exchange ratio?
   (iii) What is discriminate analysis?
   (iv) Distinguish between Gross and Net working capital. (v) What is Risk?
   (vi) What is corporate debt capacity?
   (vii) Distinguish between Mergers and Acquisitions.

2. What is Goal programme? How is it different from Linear .Programming?

3. What do you mean by Simulation technique? Examine its role and limitations in financial decision-making.

4. Distinguish between Merger and Demerger. Give a comparative analysis of the procedures involved in merger and demerger.

5. The EPS of Xyz Ltd. is Rs. 10 and the cost of equity capital Ke is 10%. Both are expected to remain constant for several years. The rate of return on fresh investment by the firm may be 8%, 10% or 15%. Apply Gordan's model and find out the market price of the share for payout ratios of 0%, 40%, 80% and 100%.

6. What is Cost-Volume-Profit Analysis? Examine its relevance and limitations.

7. Project X's net present value has been estimated and it. is learned that *it* follows normal distribution. Expected amount of net present value is 30 lakhs with a standard deviation of 15 lakhs. You are required to calculate probabilities that the net present value will be

   (i) zero or less.
   (ii) greater than 45 lakhs.
   (iii) less than 10 lakhs.

8. X Ltd. is considering the proposal to acquire Y Ltd. and the financial information is given below:

	X Ltd.	Y Ltd.
No. of Equity shares	10,00,000	6,00,000
Market Price Per Share (Rs.)	30	18
Market Capitalization (Rs.)	30,00,000	10,80,000

   X Ltd. intends to pay Rs. *1,40,00,000* in cash for Y Ltd.'s market price reflects only its value as a separate entity. Calculate the cost of merger when merger is financial by cash.

9. ABC & Co. has funds of Rs. 2,00,000 which expectedly are not required for next few years. These funds can be deposited in a bank @ 15% interest payable annually. Alternatively, the funds can be used to install a new machine for the production of a new item. For this, the firm has two options before it: Machine 1 costing Rs. *1,80,000* which is expected to give annual cash inflows of Rs. *1,00,000*, Rs. *1,20,000* and Rs. 40,000 respectively for next three years. Machine 2 costing Rs. *1,90,000* which is expected to give annual cash inflows of Rs. 1,00,000 Rs. 1,00,000 and Rs. 50,000 respectively for next three years. Present the decision situation in a decision tree and evaluate the options.